

Prepared by

FINANCE DEPARTMENT

CITY OF MORGAN HILL, CALIFORNIA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2001



CITY OF MORGAN HILL, CALIFORNIA
Comprehensive Annual Financial Report
Year Ended June 30, 2001
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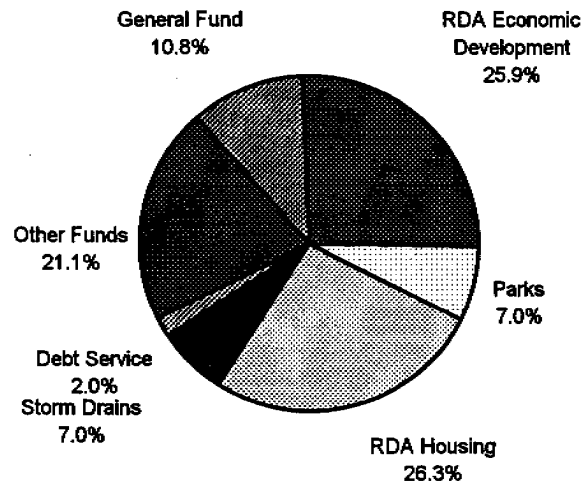
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City of Morgan Hill

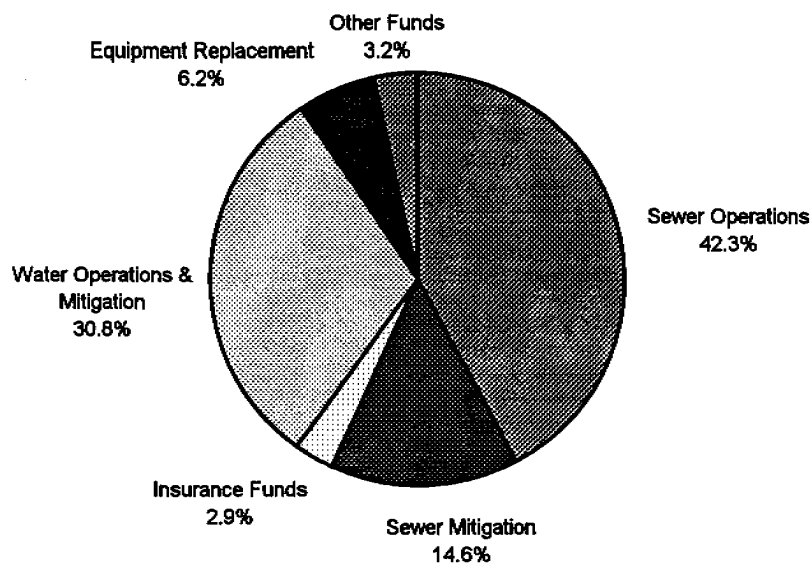
INTRODUCTORY SECTION

This section provides a description of the City and its economic conditions, achievements, and organization structure.

Fund Balance of Governmental Funds - Total \$73.6 million



Working Capital of Proprietary Funds - Total \$33.3 million





CITY OF MORGAN HILL

17555 PEAK AVENUE MORGAN HILL CALIFORNIA 95037

December 12, 2001

Honorable Mayor, Members of the City Council, City Manager, and Citizens of Morgan Hill:

The Comprehensive Annual Financial Report for the City of Morgan Hill, California for the fiscal year ended June 30, 2001, is submitted for your information and review. The responsibility for the accuracy of the information, and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and the results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. The financial statements within this report have been audited by the City's independent auditor, Caporicci, Cropper & Larson, LLP, which has issued an unqualified opinion. The auditor's opinion letter is included in this report.

The City is required to undergo an annual single audit in conformity with provisions of *The Single Audit Act*, as amended in 1996, and with the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non Profit Organizations*. Information related to this single audit, including the schedule of federal awards and the auditor's reports on the internal control structure and compliance with applicable laws and regulations, is included in the Single Audit Report, which is issued as a separate document.

The comprehensive annual financial report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section, which is unaudited, includes this letter of transmittal, a list of the City's elected officials and administrative personnel, an organization chart, an area map, and certificates of award for financial reporting. The Financial Section includes the independent auditor's report on the financial statements and schedules, general purpose financial statements, and combining and account group financial statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The financial reporting entity includes all of the funds and account groups of the primary government, the City of Morgan Hill, as well as all of its component units. Component units are legally separate entities for which the primary government is fully accountable. The Morgan Hill Corporation Yard Commission is a joint powers association between the City and the Morgan Hill Unified School District and it functions for the benefit of the City and the School District. The Morgan Hill Wastewater Facilities Financing Corporation and the Redevelopment Agency of the City of Morgan Hill are governed by boards which are substantially the same as the City's governing body. All of these component units have been blended into the City's general purpose financial statements because the City is able to impose its will on these component units, and the component units provide services primarily to the City.

This report includes all funds and account groups of the City. The City provides a broad range of services including police protection, business assistance and housing, water and sanitation services, streets and parks construction and maintenance, planning and engineering, code enforcement, recreation, and general city administration and support services. The City has contracted with Santa Clara County to provide fire protection. The City has franchised solid waste collection services.

ECONOMIC CONDITIONS AND OUTLOOK

The City Council has consistently faced the challenge of balancing policies that stimulate and support economic growth with maintenance and improvement of the quality of life in Morgan Hill. The city benefits from a diverse local economy which includes a variety of business activities and employers. The largest employers are: Anritsu, Morgan Hill Unified School District, Abbott Laboratories, Educational Data Systems, Fox Racing, Custom Chrome, Ericsson, Safeway, City of Morgan Hill, and Sakata Seeds.

Business attraction, economic development, affordable housing and capital improvements provide the foundation of the City's strategy for enhancing economic growth. Prudence in fiscal matters guides the City's management of its finances. Economic boom times are balanced with financial common sense to plan for future financial soundness.

Goal setting and establishment of priorities based on community input assure that issues important to the citizens of Morgan Hill are appropriately addressed. These issues include access to housing, enhanced recreation facilities, public safety, and emergency services. The City has been responsive to these issues, as shown by the progress toward these goals and the establishment of a solid foundation for the future. In particular, a substantial Capital Improvement Program includes plans for a community center, increased parks and recreation opportunities and substantial infrastructure enhancements. In addition the City is committed to the redevelopment process through the actions of the Redevelopment Agency.

Currently, the future economic picture for the City of Morgan Hill is bright. The continuing strength of the economy over the first three quarters of the 2000/01 fiscal year provided for the City to translate the benefits of sustained economic growth into viable programs to address quality of life issues. However, beginning in the fourth quarter of 2000/01, the City began experiencing the effects of the recession. While the City had strong tax growth during most of 2000/01, the downturn in the economy has affected the City's revenue collections. As a result, the City's General Fund is expected to take in approximately \$993,000, or 6.4%, less during 2001/02 than originally anticipated in the 2001/02 Budget. Most of this projected shortfall, or \$800,000, relates to a sharp downturn in transit occupancy (hotel) taxes associated with less business travel. The remainder of the shortfall stems from sales taxes, where receipts have flattened out, and a drop in investment earnings associated with declining interest rates. As a result of this projected shortfall, the City Council in October 2001 directed most City departments to reduce their 2001/02 budgets by a 5% target reduction, while not adversely affecting service to the public. This action will save \$545,000. The \$448,000 balance of the shortfall is to be covered by using additional fund balance in the General Fund existing at June 30, 2001, that exceeded the anticipated year-end fund balance. That additional balance was available due to strong sales tax growth in 2000/01. Finally, the City Council added \$182,000 in additional unanticipated fund balance to the existing \$1 million designation for economic uncertainty in the General Fund.

The General Fund had a very strong unreserved fund balance of approximately \$10.6 million at June 30, 2001, which amounts to 70% of the 2001/02 General Fund Budget. I believe that this high fund balance, along with the City Council's history of taking necessary strategic budgetary steps, will allow the City to safely weather the recession, to withstand any State take-aways of local revenue, and to provide for the operations of new City facilities that will be coming on-line during the next few years.

MAJOR INITIATIVES

Key accomplishments of the 2000/01 Fiscal Year

- Organized a Community Health Services Task Force to enhance emergency and medical services
- Developed and preserved affordable housing, including construction of Villa Ciolino apartment project
- Monitored the move of the Morgan Hill School and readied the site for the Community/Cultural Center
- Designed the new Community/Cultural Center
- Acquired land for recreational public facilities
- Improved and rehabilitated the Sanitary Sewer Plant, Lift Stations, & Lines

- Promoted Recycling and diverted over 50% of the City's waste this year
- Completed Butterfield Blvd. Construction project from Main Avenue north
- Completed construction of the SR101/Dunne Avenue freeway interchange
- Installed New Signals & Signal Upgrades
- Constructed a new Well, Water Reservoirs, & Water Mains
- Implemented technology & civilian deployment to deliver efficient police services
- Aggressively delivered the largest 5 year Capital Improvement Plan (CIP) in City's history
- Completed master plan for Parks & Recreation
- Began master plan process for Water, Wastewater, Drainage, and Fire & Emergency Medical Services
- Restored Police and Parks Maintenance staffing to 1991 levels
- Introduced new water meter reading technology
- Improved procedures for cost allocation, purchasing, and risk management.
- Began analysis and review of development fees, utility fees, and all other City fees.
- Re-established Architectural Review Board
- Conducted a risk management audit
- Conducted workers' compensation and liability insurance actuarial studies
- Executed an agreement with Santa Clara County to bring a Justice Center to Morgan Hill
- Finalized agreement that brought headquarters/production facility of Media Arts to Morgan Hill
- Finalized the update of the General Plan
- Developed an equipment replacement schedule for all City-owned buildings.
- Selected site for a new Library

Goals for the 2001/2002 Fiscal Year:

- Complete design of Community Playhouse and begin construction
- Begin construction on the new Community/Cultural Center
- Acquire land for public facilities including Aquatics Center, Sports Center, and Justice Center
- Update industrial development study
- Begin construction on Murphy Ranch Affordable Housing Development
- Conduct legal review of Municipal Code and transactional processes for all departments
- Develop a new City logo
- Recommend a comprehensive financial plan, including a 10 year financial forecast
- Analyze funding levels and strategy for fleet management, information technology, & equipment
- Recommend an implementation strategy for the Fire Master Plan
- Negotiate a financing agreement for the Saint Louise property acquisition to facilitate medical services
- Develop an Internet module for submission of community development permit applications
- Update the Housing Element of the General Plan
- Conduct a Greenbelt Study
- Update the Downtown Plan
- Develop an Urban Design and Gateway Plan
- Conduct an Audit of Development Processing Services
- Enhance the City's Web Site
- Improve City's budget process and incorporate departmental performance measures
- Construct a plan to implement GASB 34, which will require significant changes to the City's financial statements
- Prepare a Human Resources Strategic Plan
- Identify the site of a new Police station and develop a Master Plan for the site
- Develop Long-Term Traffic Enforcement Strategies
- Complete Master Plans for Water, Wastewater, Storm Drainage, Fire & Emergency Medical Services, and the Public Works facility
- Acquire land for the Butterfield Blvd. Extension (San Pedro to Tennant) & begin construction

- Design a Community Indoor Recreation Center & solicit construction bids
- Complete business plans for the Community Indoor Recreation Center, Community/Cultural Center, & Aquatics Center

ACCOUNTING SYSTEMS AND BUDGETARY CONTROLS

When developing and evaluating the City's accounting system, consideration is given to the effectiveness of the internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding: safeguarding of assets against loss, accuracy and reliability of accounting data, and adherence to prescribed managerial policy. Reasonable assurance recognizes that the cost of a control should not exceed benefits to be derived. The evaluation of costs and benefits requires estimates and judgments by management. We believe the internal accounting controls of the City adequately safeguard assets and provide reasonable assurance of proper recording of the financial transactions.

State statutes and City policy require an approved budget before expenditures are made. Budgets are adopted for all governmental funds and proprietary funds.

Budget proposals are prepared by the City's Department Directors. The budget proposals, with justifications, are submitted to the Finance Department for compilation. The budget is compiled and the City's preliminary budget is presented to the City Manager for review. The City Council reviews the preliminary budget at study sessions open to the public. Changes made at these sessions are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

The City Council may amend the budget by resolution during the year. The City Manager may transfer appropriations within an activity to facilitate the functions of that activity in accordance with the directions, goals, and policies of the City Council. A transfer of appropriations between activities requires City Council approval and any additional appropriations also require approval by the City Council. The budgeted amounts presented in the report are as originally adopted or, if amended, then as amended by the City Council.

FINANCIAL HIGHLIGHTS - GENERAL GOVERNMENT FUNCTIONS

The fiscal operations of the City for all general governmental functions are accounted for in the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds together are referred to as Governmental Fund Types. This group of funds includes the Redevelopment Agency Funds.

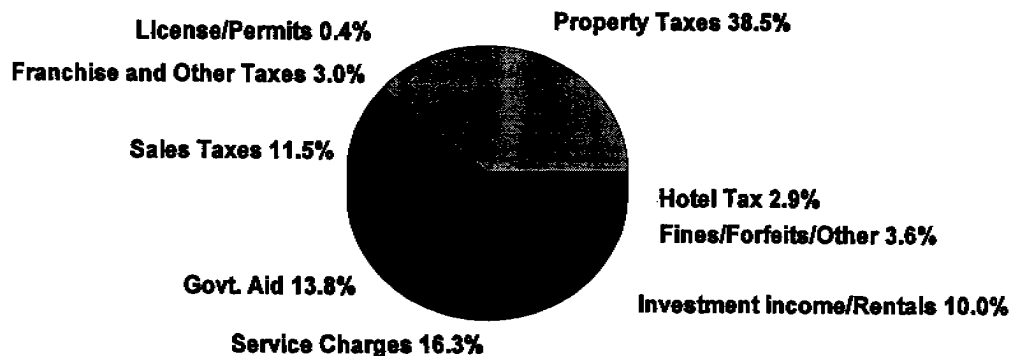
Revenues for these funds totaled \$47,927,253, a 29.1% increase over the 1999/2000 revenues. Revenues for 2000/01 by major source are summarized for all governmental funds as follows:

GOVERNMENTAL FUNDS

Revenues by Source	2000/01 Year Amount	% of Total	1999/2000 Prior Year Amount	\$ Change from Prior Year	% Change from Prior Year
Property Taxes and Special Assessments	18,431,805	38.5%	17,655,775	776,030	4.4%
Sales Taxes	5,532,132	11.5%	4,454,774	1,077,358	24.2%
Hotel Tax	1,369,168	2.9%	1,089,891	279,277	25.6%
Franchise and Other Taxes	1,434,093	3.0%	1,435,907	(1,814)	-0.1%
Licenses and Permits	200,892	0.4%	134,568	66,324	49.3%
Funding from Other Governmental Agencies	6,628,611	13.8%	3,000,557	3,628,054	120.9%
Charges for Current Services	7,831,911	16.3%	4,899,156	2,932,755	59.9%
Investment Income and Rentals	4,779,827	10.0%	3,223,934	1,555,893	48.3%
Fines, Forfeitures, and Other	1,718,814	3.6%	1,217,662	501,152	41.2%
Total Revenues	47,927,253	100.0%	37,112,224	10,815,029	29.1%

Revenue Sources - All Governmental Funds

Fiscal Year Ended June 30, 2001



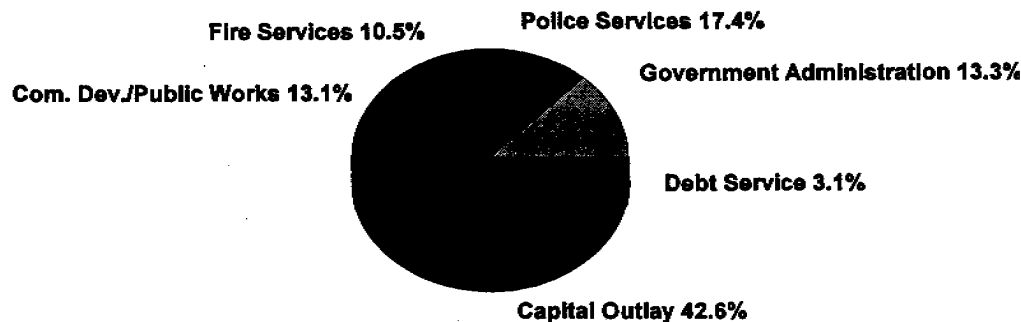
The growth in Sales Taxes was due to strong sales in the first three quarters of the fiscal year, associated with the healthy economy during that period. Hotel Taxes increased during the first three quarters of the fiscal year due to increasing occupancy rates and increased demand associated with business travel. Funding from Other Governmental Agencies increased primarily because of one-time street project grant revenues that were received during 2000/01. The increase in Charges for Current Services was associated with the timing of payments to the City for housing and commercial development. Investment Income and Rentals increased as a result of higher cash balances, a higher average return on investments, and market valuation factors. Fines, Forfeitures, and Other increased as a result of \$909,815 in loan proceeds received by the Redevelopment Agency from the California Housing Finance Agency to assist in financing the Church Street Mixed Use Affordable Housing Project.

Expenditures for the governmental funds totaled \$31,766,520, a 6.0% increase over the prior year. Expenditures by program categories are summarized in total for the governmental funds as follows:

Expenditures by Program	2000/01 Year Amount	% of Total	1999/2000 Prior Year Amount	\$ Change from Prior Year	% Change from Prior Year
Government Administration	\$ 4,225,128	13.3%	\$ 3,216,402	1,008,726	31.4%
Police Services	5,529,991	17.4%	4,810,040	719,951	15.0%
Fire Services	3,350,334	10.5%	3,118,160	232,174	7.4%
Community Development and Public Works	4,145,308	13.1%	3,926,968	218,340	5.6%
Capital Outlay	13,536,133	42.6%	7,225,065	6,311,068	87.3%
Debt Service	979,626	3.1%	7,659,910	(6,680,284)	-87.2%
Total Expenditures	\$31,766,520	100.0%	\$ 29,956,545	1,809,975	6.0%

Expenditure Uses - All Governmental Funds

Fiscal Year Ended June 30, 2001



The increase in Government Administration expenditures over the prior year was due to employee housing assistance one-time expenditures, expansion of the City's Recreation programs, and an increase in Redevelopment Agency housing related expenditures. The increase in Police Services was associated with restoring full staffing for police positions. The increase in Capital Outlay was related to a higher level of community development and public works projects. The decrease in Debt Service was the result of the early payoff during 1999/2000 of Redevelopment Agency bonds.

FINANCIAL HIGHLIGHTS - PROPRIETARY FUNDS

The Proprietary Fund Types fund group consists of Enterprise and Internal Service funds. The Enterprise Funds are the Water Fund, the Sewer Fund and the Wastewater Facilities Financing Corporation Fund. The Enterprise Funds were established to account for the financing of self-supporting activities which render services, such as water and wastewater treatment, to the public. The costs are primarily financed by user charges based on services rendered. This includes the payment of long-term debt related to these activities.

The Internal Service Funds are similar to Enterprise Funds in operating nature, except that they provide services to other City departments rather than to the public. The Internal Service Funds include Personnel, Finance, Building Maintenance, CIP Administration, Equipment Replacement, City Attorney, Corporation Yard, and insurance funds for Unemployment, Workers' Compensation and General Liability.

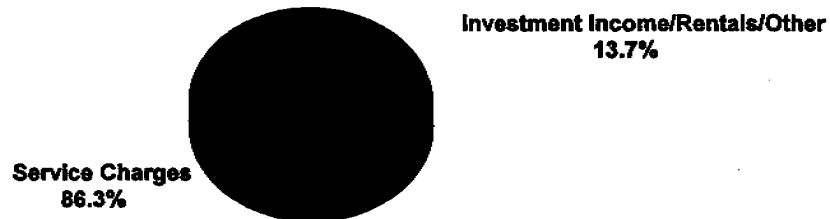
Total revenues for all Proprietary Funds increased by 13.4% as shown below:

PROPRIETARY FUNDS

Revenues	2000/01 Year Amount	% of total	1999/2000 Prior Year Amount	\$ Change from Prior Year	% Change from Prior Year
Charges for Current Services	\$19,573,246	86.3%	\$17,919,268	\$1,653,978	9.2%
Investment Income, Rentals and Other	3,104,611	13.7%	2,074,747	1,029,864	49.6%
Total Operating and Nonoperating Revenues	\$22,677,857	100.0%	\$19,994,015	\$2,683,842	13.4%

Revenues - All Proprietary Funds

Fiscal Year Ended June 30, 2001



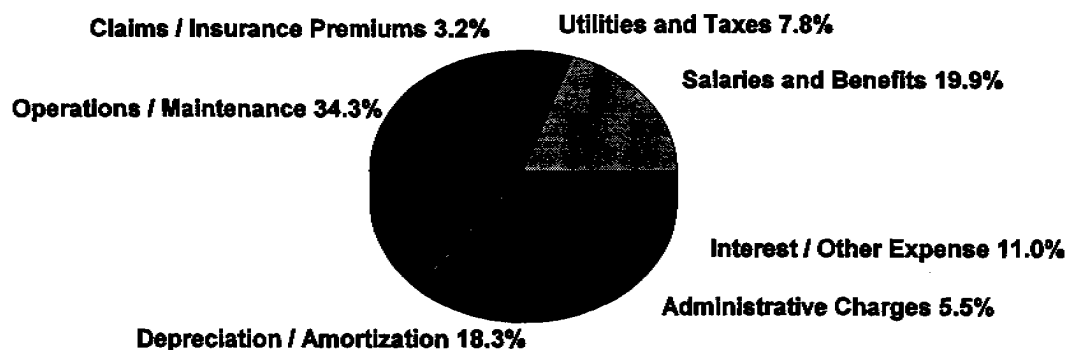
Investment Income, Rentals and Other revenues increased compared to the prior year as a result of investment income increases associated with higher average cash balances, higher interest rates for most of the fiscal year, and investment market valuations.

Expenses for all proprietary funds increased by 11.9% as shown below:

Expenses	2000/01 Amount	% of total	1999/2000 Prior Year Amount	\$ Change from Prior Year	% Change from Prior Year
Salaries and Benefits	\$ 3,484,306	19.9%	\$ 3,101,741	\$382,565	12.3%
Utilities and Taxes	1,365,095	7.8%	1,356,281	8,814	0.6%
Claims / Insurance Premiums	569,278	3.2%	227,015	342,263	150.8%
Operations and Maintenance	6,025,193	34.3%	4,610,126	1,415,067	30.7%
Depreciation and Amortization	3,211,681	18.3%	3,450,777	(239,096)	-6.9%
Administrative Charges	971,077	5.5%	803,468	167,609	20.9%
Interest and Other Expense	1,936,156	11.0%	2,150,162	(214,006)	-10.0%
Total Operating and Nonoperating Expenses	\$ 17,562,786	100.0%	\$ 15,699,570	\$1,863,216	11.9%

Expenses - All Proprietary Funds

Fiscal Year Ended June 30, 2001



The increase for Claims/Insurance Premiums was related to a higher level of workers' compensation claims costs. Operations and Maintenance expenses reflected a higher level of service in the Internal Service Funds; the largest Operations and Maintenance increase was associated with higher Corporation Yard Commission hazardous material clean-up costs. The increase in Administrative Charges was related to a higher level of Internal Service Fund charges to the sewer and water enterprise funds, in accordance with a comprehensive review of such charges.

FINANCIAL HIGHLIGHTS - FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the City as a trustee or agent for certain organizations and other governmental entities. These Agency Funds are created when the City becomes a custodian of and responsible for distribution of assets owned by others. These funds are used to account for deposits from developers, assessments collected for Morgan Hill Ranch, Tennant Business Park, and Madrone Business Park Assessment Districts for which the City is not obligated in any manner for the outstanding debt, and other deposits.

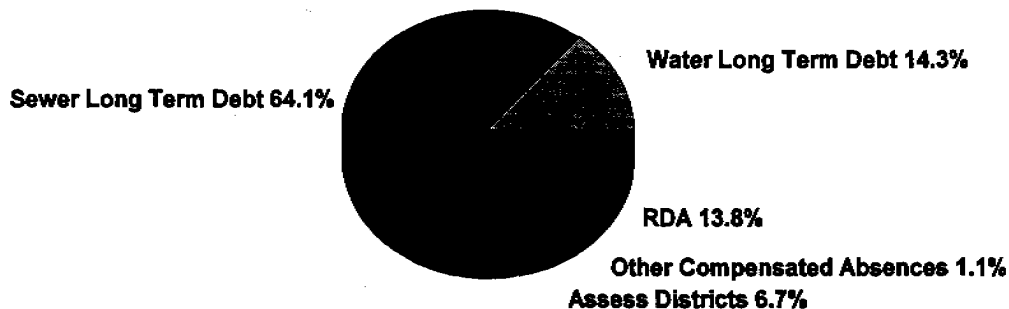
DEBT ADMINISTRATION

The City had the following long-term obligations outstanding as of June 30, 2001:

Debt & Other Long-Term Obligations	Funding Source	Debt Amount
Special Assessment Districts for which the City is Obligated in some manner: Encino Hills AD Morgan Hill Business Park AD Sutter Business Park AD Cochrane Business Park AD Joleen Way AD	Future Special Assessments collected from District property owners	\$ 2,480,000
Water Certificates of Participation	Future service fees collected by the Water Fund	4,157,108
Water Facilities Loan		1,182,993
Sewer Revenue Bonds	Future service fees collected by the Sewer Fund	52,858
Sewer Capacity Rights		23,818,840
RDA Housing Loan	Repayment from borrower	909,815
RDA Property Acquisition Loan	Future tax increment revenues collected by the Agency	4,250,000
General Compensated Absences	Unrestricted revenues of the City	391,960
Total Long Term Debt		\$ 37,243,574

Outstanding Debt - All Fund Types

As of June 30, 2001



GOVERNMENTAL FUND BALANCES

The unreserved, undesignated fund balance for all governmental funds combined increased by \$3,923,555 to \$21,894,691 at June 30, 2001, compared to the prior year. This reflected a \$692,226 decrease to a level of \$7,608,394 for the General Fund unreserved, undesignated fund balance. However, when \$3 million in designations is included, the General fund's total unreserved fund balance increased by \$2,307,774 to a level of \$10,608,394, which represented 27.8% more than the previous year's balance.

CASH MANAGEMENT

Temporarily idle cash, not restricted for other uses, was invested in the California Local Agency Investment Fund (LAIF) and in U.S. Government Securities. Investments in LAIF are highly liquid, and generally may be converted to cash within twenty-four hours without loss of investment income. Of LAIF's total investments as of June 30, 2001, approximately 37% was invested in federal Treasury & Agency Bills and Notes, 18% in CD's, 31% in Commercial Paper and Corporate Bonds and 14% in other investments. The amount of investment income earned for all funds increased from the prior year due to higher cash balances, average higher interest rates on City investments, and market valuation factors.

RISK MANAGEMENT

The City is a member of the Association of Bay Area Governments (ABAG). The city participates in the ABAG-PLAN, a self insured risk pool formed by certain cities in California to pool their insurance risk and help lower the overall cost of providing insurance coverage for general liability claims. The coverage amount is \$10 million per occurrence, subject to a \$50,000 deductible. The City Manager, the Finance Director as Risk Manager, and the City Attorney work with the ABAG-PLAN to coordinate the City's insurance policies, maintain insurance records and represent the City in handling claims.

In addition, the City is fully self insured for unemployment insurance. The City is also self insured for workers' compensation up to a maximum of \$250,000. ABAG provides excess workers' compensation insurance up to \$5,000,000 per year.

AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morgan Hill for its comprehensive annual financial report for the fiscal year ended June 30, 2000. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA certificate is valid for a period of one year only. The City has received this certificate for the last seven consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA again this year.

In addition, the City received the Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for the fiscal year ended June 30, 2000, Comprehensive Annual Financial Report, for the sixth consecutive year. The criteria for this award are very similar to that of GFOA.

ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report represents many months of work by the City's entire Finance Department staff. Special thanks go to Assistant Finance Director Tina Reza and to Accountants Isabel Jones and Lourdes Reroma for their productive efforts in the preparation of this report. I also wish to express my appreciation to the City Council and City Manager for their leadership and support.

Sincerely,

A handwritten signature in black ink that reads "Jack Dilles". The signature is written in a cursive, flowing style.

Jack Dilles
Director of Finance

CITY OF MORGAN HILL, CALIFORNIA

ELECTED OFFICIALS AND CITY STAFF AS OF JUNE 30, 2001

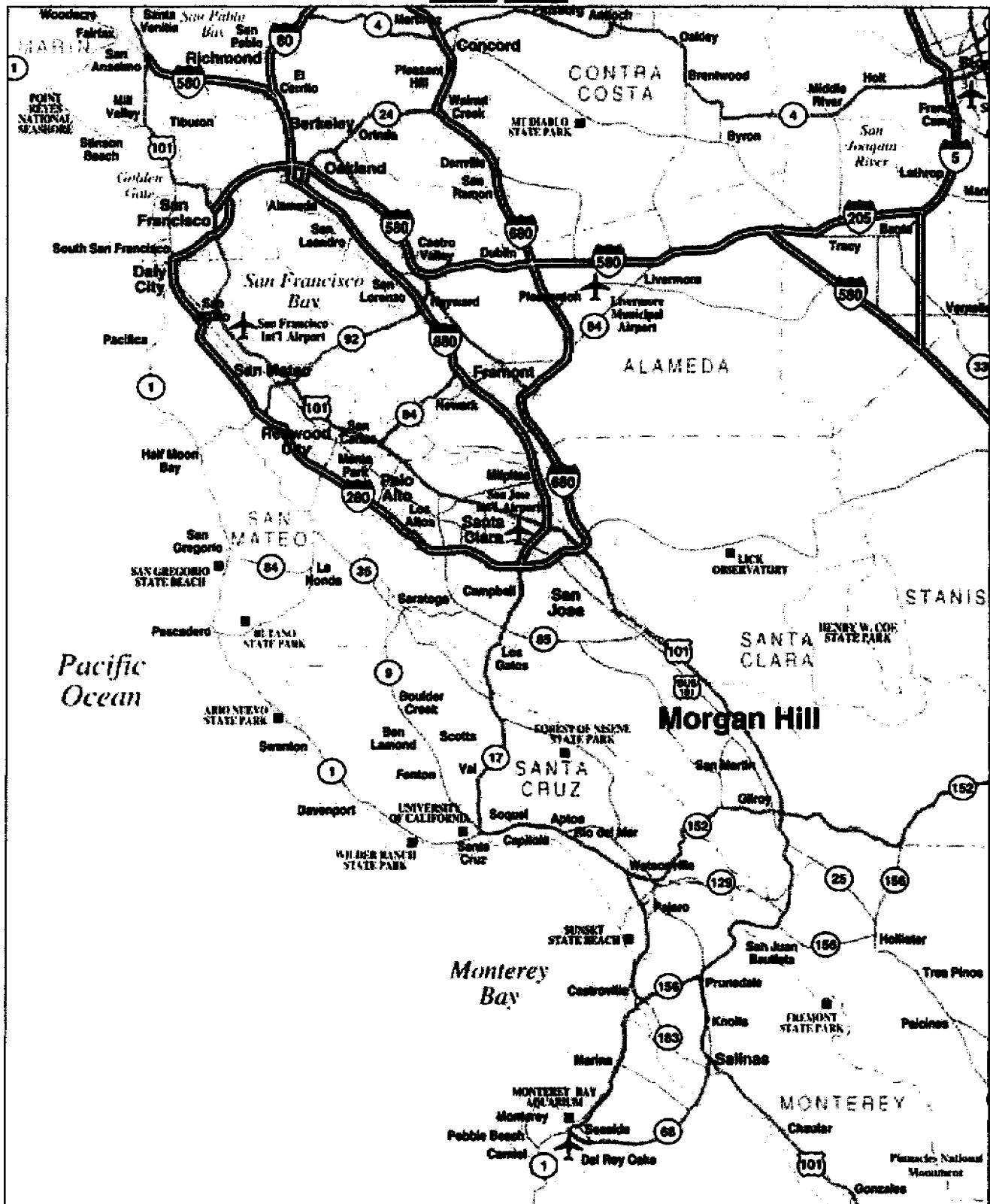
ELECTED OFFICIALS

Dennis Kennedy	Mayor
Greg Sellers	Mayor Pro Tem
Hedy L. Chang	Council Member
Steve Tate	Council Member
Larry Carr	Council Member
Michael J. Roorda	City Treasurer
Irma Torrez	City Clerk

CITY STAFF

J. Edward Tewes	City Manager
Helene Leichter	City Attorney
Jack Dilles	Director of Finance
David Bischoff	Director of Community Development
Garrett Toy	Director of Business Assistance & Housing Services
Steve Schwab	Chief of Police
Jim Ashcraft	Director of Public Works
Melissa Dile	Acting Human Resources Manager
Irma Torrez	Council Services and Records Manager

Area Map



Quick Reference Points

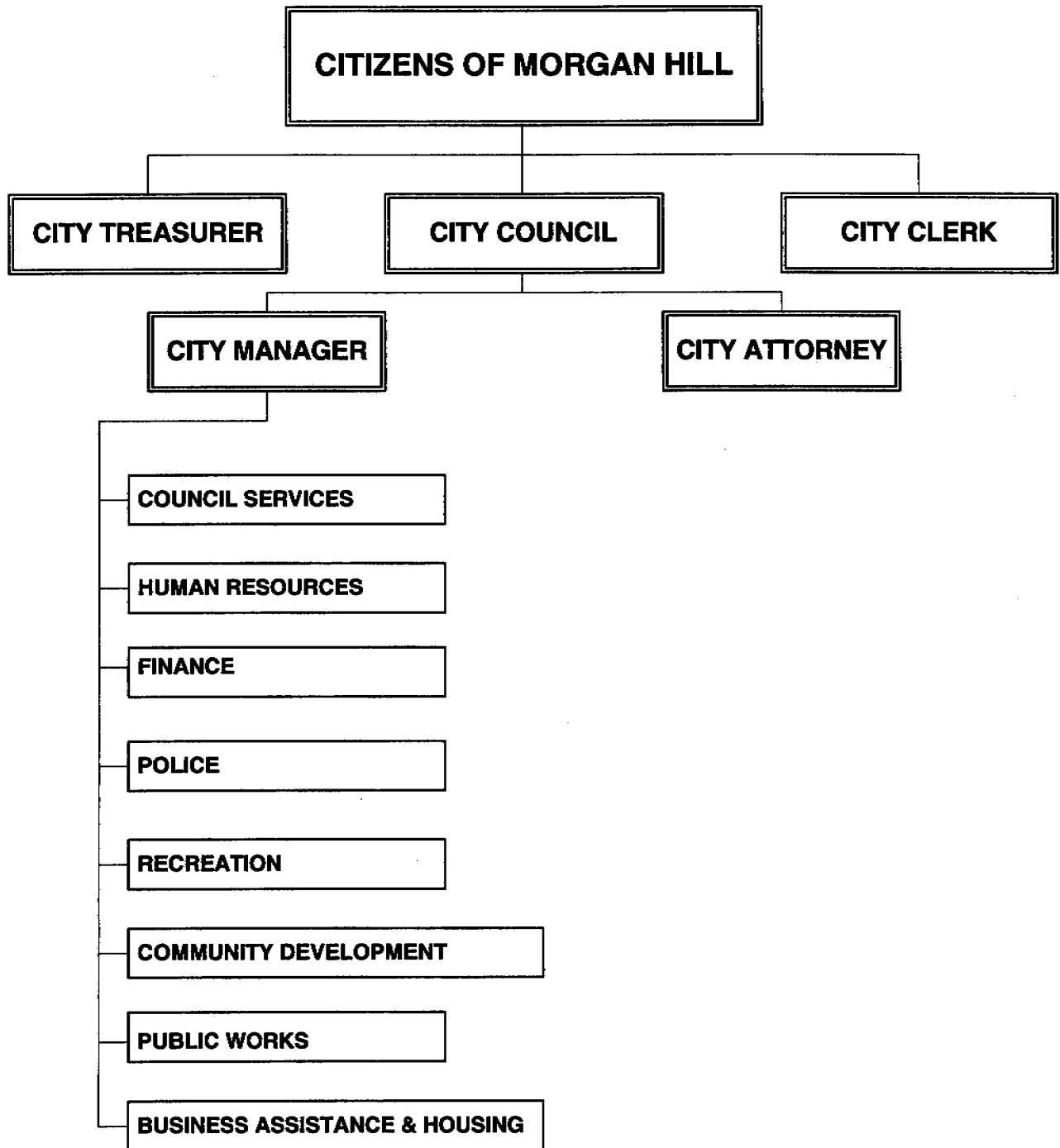
25 minutes to San Jose Airport

65 minutes to San Francisco International Airport

30 minutes to the beautiful Monterey Peninsula

10 minutes to recreational lakes and Henry Coe State Park

CITY OF MORGAN HILL



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Morgan Hill,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy D. Dwyer
President

Jeffrey L. Esler
Executive Director

California Society of Municipal Finance Officers

Certificate of Award

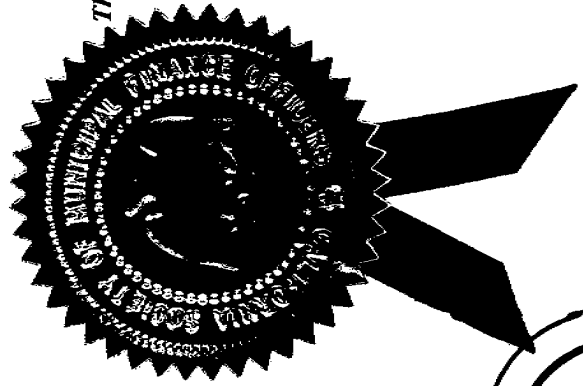
Outstanding Financial Reporting 1999-2000

Presented to the

City of Morgan Hill

*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 26, 2001



A handwritten signature in cursive script, reading "Jennie Roberts".

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



Caporicci, Cropper & Larson, LLP
Certified Public Accountants

Offices located in:
Bay Area
Orange County
Sacramento

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Morgan Hill
Morgan Hill, California

We have audited the accompanying general purpose financial statements of the City of Morgan Hill, California (City), as of and for the year ended June 30, 2001, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2001, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City, taken as a whole. The accompanying combining, individual fund and account group financial statements and schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. This additional information is the responsibility of the management of the City. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the general purpose financial statements taken as a whole. We did not audit the statistical information listed in the foregoing table of contents and, accordingly, we express no opinion on the statistical section.

Caporicci, Cropper & Larson, LLP

Oakland, California
September 26, 2001

Toll Free Tel: (877) 862-2200

Toll Free Fax: (866) 436-0927

Bay Area
1111 Broadway, Suite 2300
Oakland, California 94607

Orange County
3184-D Airway Avenue
Costa Mesa, California 92626

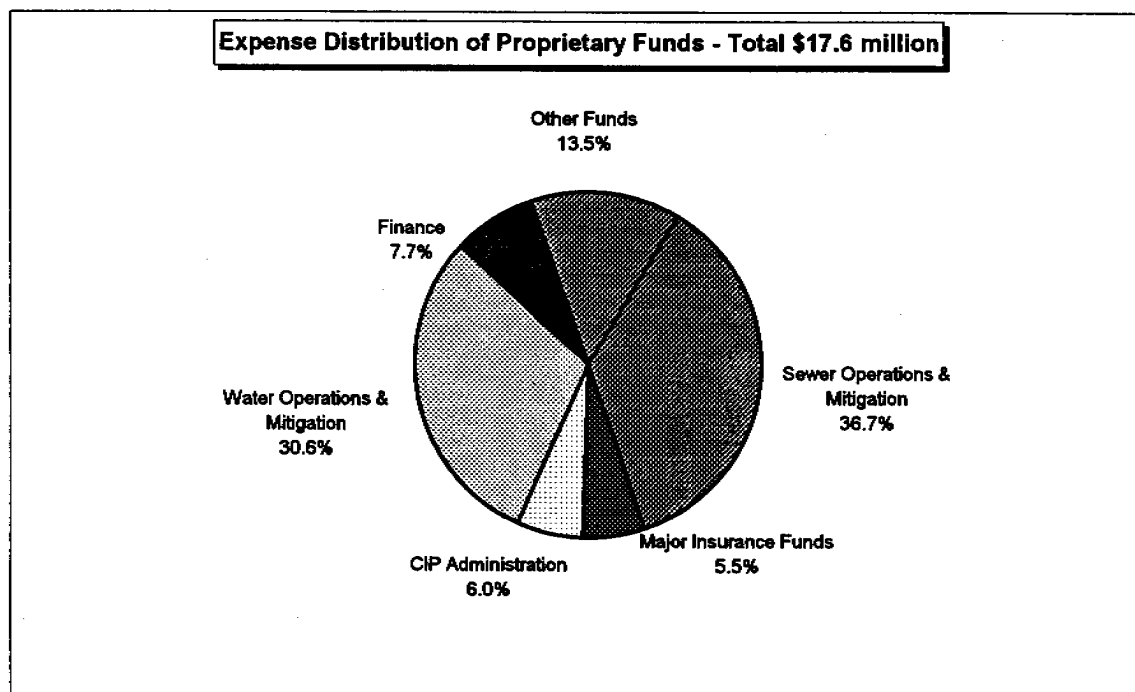
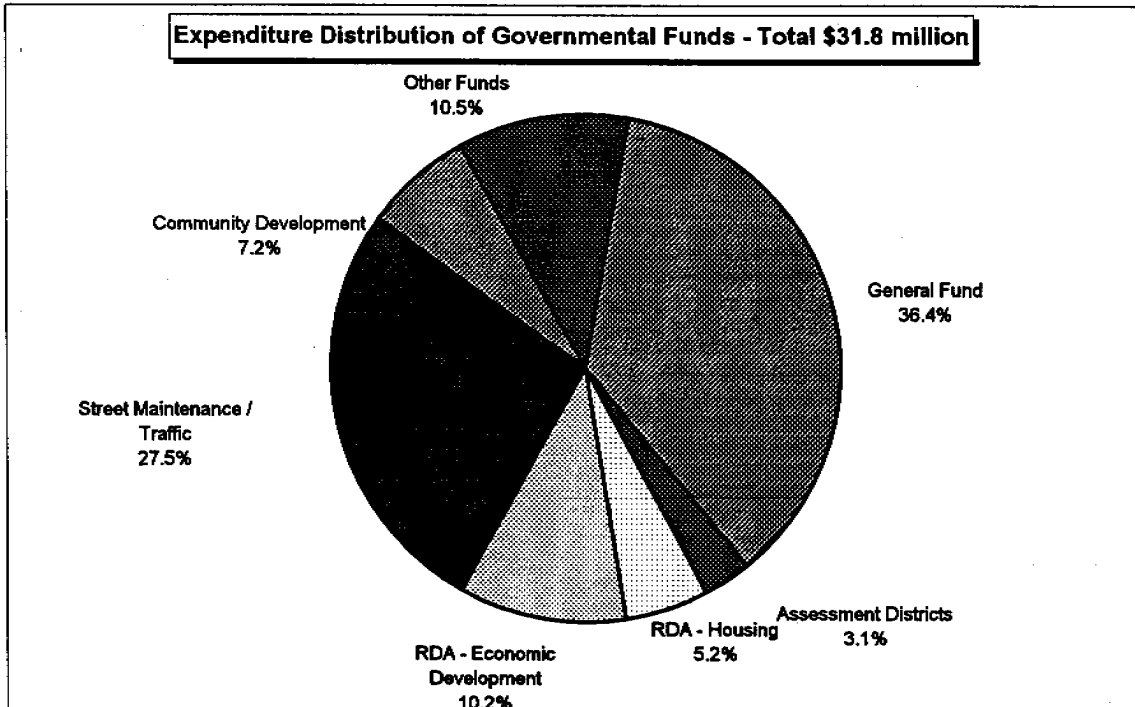
Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

City of Morgan Hill

FINANCIAL SECTION

This section begins with the general-purpose financial statements (GPFS), including the notes providing additional explanation on the GPFS, and the Independent Auditor's Report by Caporicci, Cropper & Larson, LLP, expressing an unqualified opinion on the City's GPFS. The GPFS helps to provide an overview of the financial position and operations of the City for all funds and account groups.

This is followed by combining individual fund and account group financial statements and schedules, which show in more detail the financial activity and position of the City's various funds.



Note: Expenses include nonoperating expenses for Proprietary Funds.

City of Morgan Hill, California

Combined Balance Sheet

All Fund Types and Account Groups

June 30, 2001

(With comparative totals for June 30, 2000)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets:				
Pooled cash and investments (Note 4)	\$10,228,761	\$ 8,637,683		\$ 34,609,843
Restricted pooled cash and investments (Note 4)		240,439	\$ 1,392,435	12,078,646
Cash with fiscal agents (Note 4)				
Receivables:				
Taxes and special assessments	1,230,315		1,885,694	
Accrued interest	166,811	124,100	19,368	640,520
Other accounts receivable	269,019	1,269,400		333,759
Due from other funds (Note 13)				128,593
Prepaid items				41,169
Investment in properties held for resale				71,049
Notes receivable (Note 7)				3,544
Loans receivable (Note 6)	469,821	521,881		19,318,270
Fixed assets, net (Note 5)				
Sewer capacity rights (Note 9)				
Other debits:				
Amount available in Debt Service Funds				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	\$12,364,727	\$ 10,793,503	\$ 3,297,497	\$ 67,225,393
Liabilities, Fund Equity, and Other Credits				
Liabilities:				
Accounts payable	\$ 935,698	\$ 795,902		\$ 492,807
Accrued liabilities	116,708	48,186		18,815
Due to other funds (Note 13)		128,593		
Deferred revenue (Note 7)	476,003	88,625	\$ 1,885,694	5,297,621
Customer and other deposits				
Other long-term debt (Note 8)				
Special assessment debt for which the City is obligated in some manner (Note 8)				
Compensated absence obligation (Note 8)	84,647	45,294		5,474
Capacity rights payable (Note 9)				
Total liabilities	\$ 1,613,056	\$ 1,106,600	\$ 1,885,694	\$ 5,814,717
Fund equity and other credits (Notes 5 & 12)				
Contributed capital				
Investment in general fixed assets				
Retained earnings:				
Reserved				
Unreserved				
Fund balances:				
Reserved	\$ 143,277	\$ 2,506,506	\$ 1,411,803	\$ 36,044,397
Unreserved:				
Designated	3,000,000			18,260,379
Undesignated	7,608,394	7,180,397		7,105,900
Total fund equity and other credits	\$10,751,671	\$ 9,686,903	\$ 1,411,803	\$ 61,410,676
Total liabilities, fund equity and other credits	\$12,364,727	\$ 10,793,503	\$ 3,297,497	\$ 67,225,393

Proprietary Fund Types		Fiduciary Fund Type	General Fixed Assets Account Group	General Long-Term Debt Account Group	TOTALS (Memorandum Only)	
Enterprise	Internal Service	Agency			2001	2000
\$ 19,642,946	\$ 5,414,427				\$ 78,533,660	\$ 77,657,885
6,484,278	20,000	\$ 4,556,029			\$ 24,771,827	10,039,319
2,805,280		11,050,327			13,855,607	3,745,075
					3,116,009	3,875,751
404,058	50,015				1,404,872	1,209,805
1,726,808	172,116	319,115			4,090,217	3,186,542
					128,593	691,755
	4,722				45,891	10,389
					71,049	71,049
109,213					112,757	23,829
					20,309,972	14,700,067
48,562,374	1,427,354		\$ 25,792,703		75,782,431	65,067,238
22,290,776					22,290,776	23,235,693
				\$ 1,411,803	1,411,803	2,009,248
				6,619,972	6,619,972	1,531,486
<u>\$ 102,025,733</u>	<u>\$ 7,088,634</u>	<u>\$ 15,925,471</u>	<u>\$ 25,792,703</u>	<u>\$ 8,031,775</u>	<u>\$252,545,436</u>	<u>\$207,055,131</u>
\$ 330,006	\$ 488,043	\$ 37,914			\$ 3,080,370	\$ 2,482,701
655,738	1,026,561				1,866,008	1,447,601
					128,593	691,755
					7,747,943	7,856,232
46,939		15,887,557			15,934,496	4,802,195
5,392,959				\$ 5,159,815	10,552,774	5,588,576
				2,480,000	2,480,000	3,195,000
91,045	87,633			391,960	706,053	578,186
23,818,840					23,818,840	24,310,124
<u>\$ 30,335,527</u>	<u>\$ 1,602,237</u>	<u>\$ 15,925,471</u>	<u>\$ -</u>	<u>\$ 8,031,775</u>	<u>\$ 66,315,077</u>	<u>\$ 50,952,370</u>
\$ 22,062,679					\$ 22,062,679	\$ 23,227,202
			\$ 25,792,703		25,792,703	16,895,311
8,825,698					8,825,698	8,822,253
40,801,829	\$ 5,486,397				46,288,226	40,204,034
					40,105,983	34,536,890
					21,260,379	14,445,935
					21,894,691	17,971,136
<u>\$ 71,690,206</u>	<u>\$ 5,486,397</u>	<u>\$ -</u>	<u>\$ 25,792,703</u>	<u>\$ -</u>	<u>\$186,230,359</u>	<u>\$156,102,761</u>
<u>\$ 102,025,733</u>	<u>\$ 7,088,634</u>	<u>\$ 15,925,471</u>	<u>\$ 25,792,703</u>	<u>\$ 8,031,775</u>	<u>\$252,545,436</u>	<u>\$207,055,131</u>

See accompanying notes to the general-purpose financial statement

City of Morgan Hill, California

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Project
Revenues:				
Property taxes and special assessments	\$ 1,848,188	\$ 969,477	\$ 314,824	\$ 15,299,316
Sales taxes	5,532,132			
Franchise, hotel and other taxes	2,803,261			
Licenses and permits	200,892			
Funding from other governmental agencies	2,146,538	4,482,073		
Charges for current services	348,446	2,802,007		4,681,458
Investment income and rentals	859,365	485,650	106,680	3,328,132
Fines, forfeitures, and other revenues	226,112	90,793		1,401,909
Total revenues	\$ 13,964,934	\$ 8,830,000	\$ 421,504	\$ 24,710,815
Expenditures:				
Current:				
General government	\$ 1,810,736	\$ 588,523		\$ 1,825,869
Police services	5,529,991			
Fire services	3,350,334			
Public works / development services	710,545	3,434,763		
Capital outlay	155,397	7,620,592		5,760,144
Debt service:				
Principal (Note 8)			\$ 715,000	
Interest and fiscal charges	6,275		258,351	
Total expenditures	\$ 11,563,278	\$ 11,643,878	\$ 973,351	\$ 7,586,013
Excess (deficiency) of revenues over (under) expenditures	2,401,656	(2,813,878)	(551,847)	17,124,802
Other financing sources (uses):				
Operating transfers in	1,083,356	6,099,506		2,067,526
Operating transfers (out)	(1,149,457)	(503,243)		(7,405,731)
Total other financing sources (uses)	\$ (66,101)	\$ 5,596,263	\$ -	\$ (5,338,205)
Net increase	\$ 2,335,555	\$ 2,782,385	\$ (551,847)	\$ 11,786,597
Fund balances - beginning of year	8,416,116	6,904,518	2,009,248	49,624,079
Residual equity transfer in (out) (Note 2)			(45,598)	
Fund balances - end of year	\$ 10,751,671	\$ 9,686,903	\$ 1,411,803	\$ 61,410,676

See accompanying notes to the general-purpose financial statements.

TOTALS (Memorandum Only)	
2001	2000
\$ 18,431,805	\$ 17,655,775
5,532,132	4,454,774
2,803,261	2,525,798
200,892	134,568
6,628,611	3,000,557
7,831,911	4,899,156
4,779,827	3,223,934
1,718,814	1,217,662
<u>\$ 47,927,253</u>	<u>\$ 37,112,224</u>
\$ 4,225,128	\$ 3,216,402
5,529,991	4,810,040
3,350,334	3,118,160
4,145,308	3,926,968
13,536,133	7,225,065
715,000	6,950,000
264,626	709,910
<u>\$ 31,766,520</u>	<u>\$ 29,956,545</u>
16,160,733	7,155,679
9,250,388	17,286,292
(9,058,431)	(16,637,201)
<u>\$ 191,957</u>	<u>\$ 649,091</u>
\$ 16,352,690	\$ 7,804,770
66,953,961	59,104,363
(45,598)	44,828
<u>\$ 83,261,053</u>	<u>\$ 66,953,961</u>

City of Morgan Hill, California

Combined Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual (Non-GAAP Budgetary Basis)

All Governmental Fund Types

Year ended June 30, 2001

	GENERAL FUND		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	\$ 1,922,335	\$ 1,848,188	\$ (74,147)
Sales taxes	4,462,817	5,532,132	1,069,315
Franchise, hotel and other taxes	2,113,061	2,803,261	690,200
Licenses and permits	144,200	200,892	56,692
Funding from other governmental agencies	1,830,895	2,146,538	315,643
Charges for current services	196,325	348,446	152,121
Investment income and rentals	468,960	859,365	390,405
Fines, forfeits, and other revenues	149,900	226,112	76,212
Total revenues	11,288,493	13,964,934	\$ 2,676,441
Expenditures:			
Current:			
General government	\$ 1,998,855	\$ 1,841,720	\$ 157,135
Police services	5,789,432	5,535,470	253,962
Fire services	3,350,183	3,350,334	(151)
Public works / development services	819,396	743,476	75,920
Capital outlay	230,610	229,280	1,330
Debt service:			
Principal (Note 8)			
Interest and fiscal charges	7,129	6,275	854
Total expenditures	\$ 12,195,605	\$ 11,706,555	\$ 489,050
Excess (deficiency) of revenues over (under) expenditures	\$ (907,112)	\$ 2,258,379	\$ 3,165,491
Other financing sources (uses):			
Operating transfers in	\$ 1,242,464	\$ 1,083,356	\$ (159,108)
Operating transfers (out)	(1,177,463)	(1,149,457)	28,006
Total other financing sources (uses)	\$ 65,001	\$ (66,101)	\$ (131,102)
Net increase (decrease)	\$ (842,111)	\$ 2,192,278	\$ 3,034,389
Adjustments to budgetary basis (Note 3)		143,277	
Fund balances - beginning of year		8,416,116	
Residual equity transfers in (Note 2)		-	
Fund balances - end of year		\$ 10,751,671	

SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
\$ 918,166	\$ 969,477	\$ 51,311	\$ 369,000	\$ 314,824	\$ (54,176)
1,422,260	1,749,573	327,313			
1,908,283	2,802,007	893,724			
248,995	485,650	236,655	108,064	106,680	(1,384)
65,000	2,823,293	2,758,293			
<u>\$ 4,562,704</u>	<u>\$ 8,830,000</u>	<u>\$ 4,267,296</u>	<u>\$ 477,064</u>	<u>\$ 421,504</u>	<u>\$ (55,560)</u>
\$ 595,213	\$ 633,696	\$ (38,483)			
2,800		2,800			
3,429,089	3,859,498	(430,409)			
12,343,882	9,223,934	3,119,948			
			\$ 736,500	\$ 715,000	\$ 21,500
3,394		3,394	278,876	258,351	20,525
<u>\$ 16,374,378</u>	<u>\$ 13,717,128</u>	<u>\$ 2,657,250</u>	<u>\$ 1,015,376</u>	<u>\$ 973,351</u>	<u>\$ 42,025</u>
\$ (11,811,674)	\$ (4,887,128)	\$ 6,924,546	\$ (538,312)	\$ (551,847)	\$ (13,535)
\$ 8,668,498	\$ 6,099,506	\$ (2,568,992)			
(669,607)	(503,243)	166,364			
<u>\$ 7,998,891</u>	<u>\$ 5,596,263</u>	<u>\$ (2,402,628)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (3,812,783)</u>	<u>\$ 709,135</u>	<u>\$ 4,521,918</u>	<u>\$ (538,312)</u>	<u>\$ (551,847)</u>	<u>\$ (13,535)</u>
	2,073,250				
	6,904,518			2,009,248	
				(45,598)	
	<u>\$ 9,686,903</u>			<u>\$ 1,411,803</u>	

See accompanying notes to the general-purpose financial statements

(Continued)

City of Morgan Hill, California

Combined Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual (Non-GAAP Budgetary Basis)

All Governmental Fund Types

Year ended June 30, 2001

	CAPITAL PROJECT FUNDS		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	\$ 13,821,000	\$ 15,299,316	\$ 1,478,316
Sales taxes			
Franchise, hotel and other taxes			
Licenses and permits			
Funding from other governmental agencies			
Charges for current services	1,893,000	4,681,458	2,788,458
Investment income and rentals	2,036,259	3,328,132	1,291,873
Fines, forfeits, and other revenues	760,000	1,401,909	641,909
Total revenues	\$ 18,510,259	\$ 24,710,815	\$ 6,200,556
Expenditures:			
Current:			
General government	\$ 1,841,488	\$ 1,985,428	\$ (143,940)
Police services			
Fire services			
Public works / development services			
Capital outlay	57,797,478	10,834,169	46,963,309
Debt service:			
Principal (Note 8)			
Interest and fiscal charges			
Total expenditures	\$ 59,638,966	\$ 12,819,597	\$ 46,819,369
Excess (deficiency) of revenues over (under) expenditures	\$ (41,128,707)	\$ 11,891,218	\$ 53,019,925
Other financing sources (uses):			
Operating transfers in	\$ 24,505,917	\$ 2,067,526	\$ (22,438,391)
Operating transfers (out)	(32,730,487)	(7,405,731)	25,324,756
Total other financing sources (uses)	\$ (8,224,570)	\$ (5,338,205)	\$ 2,886,365
Net increase (decrease)	\$ (49,353,277)	\$ 6,553,013	\$ 55,906,290
Adjustments to budgetary basis (Note 3)		5,233,584	
Fund balances - beginning of year		49,624,079	
Residual equity transfers in		-	
Fund balances - end of year		\$ 61,410,676	

TOTALS (Memorandum Only)			
Revised Budget	Actual Plus Encumbrances	Variance	
\$ 17,030,501	\$ 18,431,805	\$	1,401,304
4,462,817	5,532,132		1,069,315
2,113,061	2,803,261		690,200
144,200	200,892		56,692
3,253,155	6,628,611		3,375,456
3,997,608	7,831,911		3,834,303
2,862,278	4,779,827		1,917,549
974,900	1,718,814		743,914
\$ 34,838,520	\$ 47,927,253	\$	13,088,733
\$ 4,435,556	\$ 4,460,844	\$	(25,288)
5,792,232	5,535,470		256,762
3,350,183	3,350,334		(151)
4,248,485	4,602,974		(354,489)
70,371,970	20,287,383		50,084,587
736,500	715,000		21,500
289,399	264,626		24,773
\$ 89,224,325	\$ 39,216,631	\$	50,007,694
\$ (54,385,805)	\$ 8,710,622	\$	63,096,427
\$ 34,416,879	\$ 9,250,388	\$	(25,166,491)
(34,577,557)	(9,058,431)		25,519,126
\$ (160,678)	\$ 191,957	\$	352,635
\$ (54,546,483)	\$ 8,902,579	\$	63,449,062
	7,450,111		
	66,953,961		
	(45,598)		
	\$ 83,261,053		

See accompanying notes to the general-purpose financial statement

(Concluded)

City of Morgan Hill, California

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings

All Proprietary Fund Types

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	PROPRIETARY FUND TYPES		TOTALS (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
Operating revenues:				
Charges for current services	\$ 14,748,403	\$ 4,824,843	\$ 19,573,246	\$ 17,919,268
Supplemental rent from operations		785,051	785,051	278,123
Other operating income		45,085	45,085	75,000
Total operating revenues	\$ 14,748,403	\$ 5,654,979	\$ 20,403,382	\$ 18,272,391
Operating expenses:				
Salaries and benefits	1,858,414	1,625,892	3,484,306	3,101,741
Utilities and taxes	1,365,095		1,365,095	1,356,281
Claims and insurance premiums		569,278	569,278	227,015
Operations and maintenance	3,378,026	2,647,167	6,025,193	4,610,126
Depreciation	1,824,851	441,913	2,266,764	2,505,860
Amortization of sewer capacity rights	944,917		944,917	944,917
Administrative charges	508,630	462,447	971,077	803,468
Total operating expenses	\$ 9,879,933	\$ 5,746,697	\$ 15,626,630	\$ 13,549,408
Operating income	\$ 4,868,470	\$ (91,718)	\$ 4,776,752	\$ 4,722,983
Nonoperating revenue (expense):				
Investment income	2,062,127	212,348	2,274,475	1,721,624
Interest (expense)	(1,935,418)	(738)	(1,936,156)	(2,150,162)
Total nonoperating revenue (expense)	\$ 126,709	\$ 211,610	\$ 338,319	\$ (428,538)
Income before operating transfers	\$ 4,995,179	\$ 119,892	\$ 5,115,071	\$ 4,294,445
Operating transfers in	5,266,783	844,766	6,111,549	6,204,005
Operating transfers (out)	(6,093,211)	(210,295)	(6,303,506)	(6,853,096)
	\$ (826,428)	\$ 634,471	\$ (191,957)	\$ (649,091)
Net income	\$ 4,168,751	\$ 754,363	\$ 4,923,114	\$ 3,645,354
Charge to contributed capital for depreciation on fixed assets acquired with contributions	\$ 1,164,523		\$ 1,164,523	\$ 1,164,523
Retained earnings - beginning of year	44,294,253	4,732,034	49,026,287	44,261,239
Equity transfer to General Fund				(44,829)
Retained earnings - end of year	\$ 49,627,527	\$ 5,486,397	\$ 55,113,924	\$ 49,026,287

See accompanying notes to the general-purpose financial statements

City of Morgan Hill, California

Combined Statement of Cash Flows - All Proprietary Fund Types

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	PROPRIETARY FUND TYPES		TOTALS (Memorandum Only)	
	Enterprise	Internal Service	2001	2000
Cash flows from operating activities:				
Operating income	\$ 4,868,470	\$ (91,718)	\$ 4,776,752	\$ 4,722,983
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,824,851	441,913	2,266,764	2,505,860
Amortization of sewer capacity rights	944,917		944,917	944,917
Effect of changes in assets and liabilities:				
Receivables	(241,748)	(92,397)	(334,145)	(122,430)
Prepaid expenses		5,667	5,667	5,666
Notes receivable	(91,062)		(91,062)	27,801
Accounts payable and accrued liabilities	(9,300)	550,971	541,671	(328,235)
Customer and other deposits	(6,632)		(6,632)	(3,936)
Other liabilities	23,553	18,825	42,378	(77,987)
Due to other funds				
Net cash provided by operating activities	\$ 7,313,049	\$ 833,261	\$ 8,146,310	\$ 7,674,639
Cash flows from capital and related financing activities:				
Acquisition and construction of fixed assets	\$ (3,260,736)	\$ (823,829)	\$ (4,084,565)	\$ (3,978,619)
Payments of debt principal	(195,617)		(195,617)	(206,202)
Interest paid	(1,935,418)	(738)	(1,936,156)	(2,069,655)
Payments for sewer capacity	(491,284)		(491,284)	(540,000)
Net cash used in capital and related financing activities	\$ (5,883,055)	\$ (824,567)	\$ (6,707,622)	\$ (6,794,476)
Cash flows from noncapital financing activities:				
Transfers in	\$ 5,266,783	844,766	\$ 6,111,549	\$ 5,559,922
Transfers out	(6,093,211)	(210,295)	(6,303,506)	(6,253,842)
Net cash provided by (used in) noncapital financing activities	\$ (826,428)	\$ 634,471	\$ (191,957)	\$ (693,920)
Cash flows from investing activities:				
Interest received on investments	\$ 2,023,034	\$ 206,283	\$ 2,229,317	1,663,267
Net cash provided by investing activities	\$ 2,023,034	\$ 206,283	\$ 2,229,317	\$ 1,663,267
Net increase in cash and investments	\$ 2,626,600	\$ 849,448	\$ 3,476,048	\$ 1,849,510
Cash and investments - beginning of year	26,305,904	4,584,979	30,890,883	29,041,373
Cash and investments - end of year	\$ 28,932,504	\$ 5,434,427	\$ 34,366,931	\$ 30,890,883
Reconciliation of cash and investments:				
Pooled cash and investments	\$ 19,642,946	\$ 5,414,427	\$ 25,057,373	\$ 27,102,427
Restricted cash	9,289,558	20,000	9,309,558	3,788,456
Total	\$ 28,932,504	\$ 5,434,427	\$ 34,366,931	\$ 30,890,883

See accompanying notes to the general-purpose financial statements

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

1. DEFINITION OF THE REPORTING ENTITY

The City of Morgan Hill, California, (the City) was incorporated in October 1906 as a general law city and operates under a Council-Manager form of government.

As required by Statement No. 14 of the Governmental Accounting Standards Board (GASB), these financial statements present the government and its blended component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit has a June 30 fiscal year-end.

The Morgan Hill Corporation Yard Commission (the Commission) functions for the benefit of the City. The Morgan Hill Wastewater Facilities Financing Corporation (the Financing Corporation) and the Redevelopment Agency of the City of Morgan Hill (the Agency) are governed by boards which are substantially the same as the City's governing body. All of these component units have been blended into the City's general purpose financial statements as the City is able to impose its will on these component units which provide services primarily to the City.

The Commission's activity is reported through an Internal Service Fund, the Financing Corporation's activity through an Enterprise Fund, and the Agency's activity through a Capital Project Fund in the City's general purpose financial statements. The Financing Corporation does not issue separate general purpose financial statements. Complete financial statements for the Commission and the Agency may be obtained from the City at the following address:

City of Morgan Hill
Attention: Finance Department
17555 Peak Avenue
Morgan Hill, CA 95037

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general-purpose financial statements of the City have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The more significant accounting policies of the City are described in the following sections.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(a) *Basis of Presentation*

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance or retained earnings, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be expended and the means by which spending activities are controlled. The City's funds are grouped in the general-purpose financial statements as follows:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds and agency funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income.

The following are the City's Governmental Fund Types:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund and Proprietary Fund Types).

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing activities which are similar to those often found in the private sector. The measurement focus is based upon determination of net income. Proprietary Fund Types include Enterprise Funds and Internal Service Funds:

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to other departments or agencies on a cost-reimbursement basis.

Fiduciary Fund Types

Agency Funds

Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Assets equal liabilities and the measurement of operations is not a focus.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Account Groups

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's Account Groups:

General Fixed Asset Account Group

Fixed assets of the City other than those accounted for in the Proprietary Fund Types are accounted for in the General Fixed Assets Account Group.

General Long-Term Debt Account Group

Long-term liabilities, including the long-term portion of vested compensated absence obligations expected to be financed by governmental funds, are accounted for in the General Long-Term Debt Account Group.

(b) *Basis of Accounting*

Governmental Fund Types

Governmental fund types are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. "Measurable" means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes and special assessments to be available and subject to accrual if they are levied for and due within the fiscal year and collected within 60 days after year-end. In accordance with GASB Statement No. 33, the City reports revenues from non-exchange transactions, such as sales tax, transient occupancy tax and motor vehicle tax, in the period the underlying transaction occurred or when the use of the resources is required or first permitted.

Recognition of assets, liabilities, expenses and expenditures follow this same requirement, except for principal and interest on long-term debt, which is recognized when due and the long term portion of compensated absences, which is recognized in the period in which it is expected to be paid.

City of Morgan Hill
Notes to the General Purpose Financial Statements
For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Proprietary Fund Types

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which they are incurred. Unbilled service receivables in the Enterprise Funds are accrued at year-end.

For its proprietary type activities, the City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Activities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB) and the Accounting Principles Board (APB), as well as Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Agency Fund Types

These funds are purely custodial in nature (assets equal liabilities) and thus do not involve the measurement of results of operations. These funds are accounted for on the modified accrual basis.

(c) *Budgetary Information*

State statutes require a budget be approved before any expenditures are made. Budgets are adopted for all Governmental and Proprietary Fund Types. Budgetary comparisons are reflected in the City's financial report for all governmental funds.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations of the various governmental funds. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer appropriations within an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council. Unencumbered appropriations lapse at the end of each fiscal year.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Budget proposals are prepared by each of the City's department directors. The budget proposals and justifications are submitted to the Finance Department, which compiles the information and prepares the City's preliminary budget. The City Council reviews the preliminary budget at a meeting open to the public. Changes approved at this meeting are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

Any revisions that increase the total budgeted expenditures of any fund must be approved by the City Council. Expenditures and encumbrances may not legally exceed budgeted appropriations at the fund level. Budgeted amounts presented in the general-purpose financial statements are as originally adopted and include amendments approved by City Council during the fiscal year.

(d) *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all Governmental Fund Types. Encumbrances outstanding at year-end are reappropriated in the next year and reported as reservations of fund balances since they do not constitute expenditures or liabilities.

(e) *Cash and Investments*

Cash and investments of individual funds are combined for investment purposes in a commingled pool except for the investments held by fiscal agents, which are maintained and invested separately. The City's cash and cash equivalents are considered to be cash on hand or demand deposits. Cash equivalents are stated at fair value. The fair value of investments is determined annually and is based on current market prices. Investment income earned on the commingled pool is allocated quarterly among the funds based upon the average daily balance of cash maintained by each fund.

Gains or losses on securities included in the investment portfolio are recognized at the earlier of the end of the fiscal year or when the related security is sold. Investments in securities purchased with the intent to trade for a profit are prohibited by City policy.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Resolutions authorizing certain bonds require that certain amounts be held by a fiscal agent to secure principal and interest payments. Such amounts are classified as restricted cash and investments held by fiscal agents. Each fund type's portion of this pool is displayed on the combined balance sheet as "pooled cash and investments" and "restricted pooled cash and investments" held by the City.

(f) *Fixed Assets*

General fixed assets have been acquired for general governmental purposes and for long-term, future redevelopment. Assets purchased are recorded as expenditures in the governmental funds and are capitalized in the General Fixed Assets Account Group. Purchased fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are recorded at estimated fair market value at the time received. Assets in the general fixed assets accounting group are not depreciated.

Public domain general fixed assets, consisting of certain improvements other than buildings, and including assets such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems, are not capitalized and are not included in the General Fixed Assets Account Group. Such assets are normally immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures is satisfied without recording such assets.

Fixed assets associated with the activities of the proprietary funds are recorded as assets of those funds. If purchased, the assets are stated at cost or estimated historical cost if actual historical cost is not available; if donated, they are stated at estimated fair market value at the date of the gift. The City's policy is to capitalize net interest incurred in relation to construction-in-progress on projects accounted for in the proprietary funds.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Depreciation recognized on assets acquired through intergovernmental grants, entitlements, or shared revenues externally restricted to

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

capital acquisitions is included as an operating expense and the portion of the expense related to the contributed portion of the asset cost is transferred as a charge to the contributed capital account. The estimated useful lives used for computing depreciation on fixed assets in the City's proprietary funds are as follows:

Land improvements	30-50 years
Buildings	30 years
Machinery, equipment and vehicles	5-20 years

(g) *Sewer Capacity Rights*

Capacity rights are capitalized in the Sewer Enterprise Fund. Such rights are being amortized over 30 years, the estimated life of the sewer treatment facility.

(h) *Special Assessment Districts*

Recognition of revenue related to noncurrent receivables of the special assessment districts is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes full value will ultimately be received by the City. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

(i) *Accrual for Vacation, Sick Leave, Compensatory Time, and Post-Employment Benefits*

Vested vacation, sick leave, and compensatory time are accrued, as appropriate, for all fund types. For Governmental Fund Types, the long-term portion of this liability is recorded in the General Long-Term Debt Account Group.

The City's employees may accrue vacation and compensatory time for which they will be compensated upon termination at current hourly rates. The accrual rates vary depending on employee classification and years of service. Sick leave is accrued at a rate of one day a month. Sick leave accruals are carried forward to the next year; however, at the end of the calendar year, unless otherwise requested, 25% of each employee's sick leave accrual for that year which has not been used is paid to the employee.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Upon retirement or leave from the City, any unused sick leave may be used in the determination of length of service in relation to pension benefits received from the California Public Employees' Retirement System (CalPERS) (see Note 10).

The City participates in the CalPERS Health Program. This program provides medical insurance coverage for both current employees and retirees. Participating employers must contribute toward the cost of the health premiums for both employee groups. The City has chosen to contribute under the unequal contribution option. The unequal contribution option requires an initial City contribution for each retiree of \$1 per month, with annual increases of at least 5 percent of the City's monthly contribution of \$16 toward the premium for each active employee, until such time as the contribution for employees and retirees are equal.

(j) *Restricted Assets*

Assets which are restricted for specified uses by bond debt requirements, grant provisions, or other requirements are classified as restricted assets held by the City as fiscal agent.

(k) *Interfund Transactions*

Interfund transfers which represent operating subsidy transfers are treated as operating transfers. Nonrecurring transfers of equity between funds are approved by the City Council and reported as residual equity transfers.

(l) *Property Tax and Special Assessment Levy, Collection, and Maximum Rates*

The State of California's (the State) Constitution Article XIII A (commonly referred to as Proposition 13) provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is further improved, sold or transferred. The State legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts, and other districts.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Santa Clara County assesses properties and bills, collects, and distributes property taxes and special assessments as follows:

Date Category	Secured	Unsecured
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	March 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (For November) April 10 (For February)	August 31

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. Taxes on real estate, land, and buildings are secured by liens on the property being taxed.

(m) *Unbilled Service Receivables*

The city bills for water and sewer services on a monthly basis. All amounts not billed at year end are accrued and reflected as accounts receivable in the appropriate funds.

(n) *Income Taxes*

The City and its related entities fall under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, they are not subject to federal or state income taxes.

(o) *Investment in Properties Held for Resale*

The Agency purchases housing units and other properties for redevelopment within the Agency's project area. The costs of agency properties held for resale are capitalized in the Redevelopment Agency Capital Project Fund as "investment in properties held for resale," at the lower of acquisition cost or net realizable value.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

(p) *Estimates*

The preparation of general-purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(q) *New/Closed Funds*

During fiscal year 2000/01, the City closed out the Hidden Creek Assessment Fund and the Dunne/Condit Assessment Fund, which were previously accounted for within the Debt Service fund type, and began accounting for these activities within the Special Deposits Fund, which is accounted for as an Agency fund type. The residual equity amounts of \$36,506 and \$9,092, respectively, were transferred to the Special Deposits Fund.

During the fiscal year 2000/01 the City expended all of the pre-bond issue funds in the Madrone Business Park Assessment District Fund. This fund was renamed Madrone Business Park Assessment District-Tax Exempt and a new fund, Madrone Business Park Assessment District-Taxable, was established. These two agency funds are used to account for the proceeds of the bonds that were issued in July, 2000, for the Madrone Business Park Assessment District improvement, redemption and reserve funds.

(r) *Total Columns*

The total columns in the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate additional analysis. The data in these columns is not comparable to a consolidation and does not present financial position or results of operations in conformity with generally accepted accounting principles. Eliminations of interfund activity have been made within fund types but not between fund types.

3. BUDGETARY INFORMATION

Budgetary Results Reconciled to Generally Accepted Accounting Principles

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). The results of

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

3. BUDGETARY INFORMATION, Continued

operations are presented in the accompanying budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major difference between the budgetary basis actual and GAAP basis is that year-end encumbrances are recognized as the equivalent of expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the GAAP basis until recorded as actual expenditures.

A summary of the adjustments necessary to reconcile the results of operations on a budgetary basis to the results of operations on a GAAP basis are listed below for each governmental fund type:

	General	Special Revenue	Debt Service	Capital Projects
Expenditures, GAAP basis	\$ 11,563,278	\$ 11,643,878	\$ 973,351	\$ 7,586,013
Encumbrances	143,277	2,073,250	-	5,233,584
Expenditures, budgetary basis	<u>\$ 11,706,555</u>	<u>\$ 13,717,128</u>	<u>\$ 973,351</u>	<u>\$ 12,819,597</u>

4. CASH AND INVESTMENTS

Description of amounts reported on City's Financial Statements

The City maintains a cash and investment pool in which all funds and component units participate. Certain bonds require that certain amounts be held by a fiscal agent and/or the City to secure principal and interest payments. Such amounts are classified as restricted cash and investments or as cash with fiscal agent. Each fund type's portion of this pool is displayed on the combined balance sheet as follows:

Cash and investments	\$ 78,533,660
Restricted cash and investments	24,771,827
Cash with fiscal agents	<u>13,855,607</u>
Total cash and investments	<u>\$ 117,161,094</u>

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

4. CASH AND INVESTMENTS, Continued

A summary of cash and investments as described below follows:

Cash deposits	\$ 2,926,400
Pooled investments	100,379,087
Cash with fiscal agents	<u>13,855,607</u>
Total cash and investments	<u>\$ 117,161,094</u>

The investments made by the City Treasurer are limited to those allowable under State statutes and the City's Investment Policy, approved on September 15, 1999, and re-approved on April 4, 2001, which is more conservative than that allowed by State statute. Under provisions of this policy, the City is authorized to invest in the following types of investments:

Certificates of Deposits	Government Agency Securities
Treasury Bills and Notes	Passbook Savings Accounts
Dreyfuss Treasury Cash Mgmt	State of California Local Agency Investment Fund (LAIF)

The City's investments with LAIF at June 30, 2001 include a small portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

- Structured Notes - debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or state maturity) depend upon one or more indices and/or have embedded forwards or options.
- Asset-backed Securities - generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

Cash Deposits

All pooled certificates of deposit and bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

4. CASH AND INVESTMENTS, Continued

securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2001, the carrying amount of the City's deposits was \$2,926,400 and the bank balances were \$3,649,117. The difference between the carrying amount and the bank balances is due to deposits in transit and outstanding checks in the general operating account.

The City's bank balances at year-end are categorized below to give an indication of the level of credit risk assumed by the City.

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the City's name

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.

As of June 30, 2001, the City's bank balances are categorized as follows:

Category 1	\$ 100,000
Category 2	<u>3,549,117</u>
Total cash deposits	<u>\$3,649,117</u>

Investments

The City's investments at year-end are categorized below, according to the guidelines of GASB Statement No. 3 to give an indication of the level of custodial credit risk assumed by the City as of June 30, 2001.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

4. CASH AND INVESTMENTS, Continued

Category 1 - Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name.

Uncategorized - Certain investments are not subject to categorization under GASB Statement No. 3 and are identified as "Not Required to be Categorized."

Investments in LAIF and money market funds are not categorized as they are invested in investment pools and are thus exempt from categorization requirements. Investments in LAIF are highly liquid, and deposits may usually be converted to cash within twenty-four hours without loss of interest.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the City's pool share in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the City's position in the pool. The total amount invested by all public agencies in LAIF at June 30, 2001 was \$60,041,260.

The City has no Category 2 or 3 type pooled investments.

At June 30, 2001, the City's pooled investments, including both restricted and unrestricted balances, classified by risk category consisted of the following:

	Category 1	Not Required to be Categorized	Fair Value
Money Market		\$ 2,169,440	\$ 2,169,440
Federal Securities	\$ 38,000,938		38,034,040
Local Agency Investment Fund		60,041,260	60,175,607
Total pooled investments	\$ 38,000,938	\$ 62,210,700	\$ 100,379,087

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

4. CASH AND INVESTMENTS, Continued

The maturities of investments at June 30, 2001 are as follows:

<u>Maturity</u>	<u>Fair Value</u>
Current to one year	\$ 64,353,787
One to two years	2,039,380
Two to three years	10,031,880
Three to five years	23,954,040
Total Investments	<u>\$ 100,379,087</u>

At June 30, 2001, the City's cash with fiscal agents classified by risk category consisted of the following:

	<u>Category 1</u>	<u>Not Required to be categorized</u>	<u>Fair Value</u>
Cash with fiscal agents:			
Bank of New York:			
Fidelity U.S. Treasury		\$ 75,816	\$ 75,816
U.S. Treasury Notes	\$ 2,006,565		2,336,673
U.S. Bank:			
Federal Securities	1,201,403		1,219,659
First American Treasury Obligation		10,223,459	10,223,459
Total Cash with Fiscal Agents	<u>\$ 3,207,968</u>	<u>\$ 10,299,275</u>	<u>\$ 13,855,607</u>

Fair Value of Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Pools, investments were stated at fair value using the aggregate method as follows:

Fair Value of investments at June 30, 2001	\$100,379,087
Less: Cost of investments purchased	(12,776,562)
Less: Fair Value of investments at July 1, 2000	<u>(86,688,266)</u>
Change in Fair Value of investments	<u>\$ 914,259</u>

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

4. CASH AND INVESTMENTS, Continued

Investment income is comprised of the following:

Interest including realized gains on sale of investments	\$ 6,140,043
Net change in fair value of investments	914,259
Total investment income	<u>\$ 7,054,302</u>

External Investment Pool

The City invests in LAIF a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

The City valued its investments in LAIF as of June 30, 2001, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants total aggregate amortized cost by total aggregate fair value.

Accordingly, as of June 30, 2001, the City's investments in LAIF at fair value amounted to \$60,041,260 using a LAIF fair value factor of 01.002237525.

5. FIXED ASSETS AND CONTRIBUTED CAPITAL

The following is a summary of the City's general fixed assets as of June 30, 2001:

Fixed Asset Category	Carrying Value
Land	\$ 15,332,103
Buildings and improvements	6,982,828
Machinery, equipment and vehicles	1,826,650
Construction in progress	1,651,122
Total General Fixed Assets	<u>\$ 25,792,703</u>

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

5. FIXED ASSETS AND CONTRIBUTED CAPITAL, Continued

Changes in the General Fixed Asset Account Group were as follows:

Fixed Asset Category	Beginning Balance July 1, 2000	Additions	Retirements & transfers	Ending Balance June 30, 2001
Land	\$ 9,829,763	\$ 5,502,340		\$ 15,332,103
Buildings and improvements	4,699,134	1,717,695	\$ 565,999	6,982,828
Machinery, equipment and vehicles	1,653,778	245,376	(72,504)	1,826,650
Construction in Progress	712,636	1,504,485	(565,999)	1,651,122
Total General Fixed Assets	<u>\$ 16,895,311</u>	<u>\$ 8,969,896</u>	<u>\$ (72,504)</u>	<u>\$ 25,792,703</u>

As of June 30, 2001, fixed assets of the Proprietary Fund Types consisted of:

Fixed Asset Category	Enterprise Funds	Internal Service Funds
Land, buildings and improvements	\$ 106,413,024	\$ 480,348
Machinery, equipment and vehicles	18,832,458	2,768,072
Construction in Progress	5,784,452	-
Total	<u>\$ 131,029,934</u>	<u>\$ 3,248,420</u>
Less accumulated depreciation	(60,176,784)	(1,821,066)
Fixed assets, net	<u>\$ 70,853,150</u>	<u>\$ 1,427,354</u>

A reconciliation of fixed assets for the Proprietary Fund types are listed below:

	Enterprise Funds	Internal Service Funds
Fixed Assets, Net	\$ 48,562,374	\$ 1,427,354
Sewer Capacity Rights	22,290,776	
Totals	<u>\$ 70,853,150</u>	<u>\$ 1,427,354</u>

City of Morgan Hill

Notes to the General Purpose Financial Statements For the year ended June 30, 2001

5. FIXED ASSETS AND CONTRIBUTED CAPITAL, Continued

A reconciliation of contributed capital for the year is listed below:

	<u>Enterprise Funds</u>
Contributed capital, July 1, 2000	\$ 23,227,202
Less depreciation charged against contributed capital	<u>(1,164,523)</u>
Contributed capital, June 30, 2001	<u>\$ 22,062,679</u>

6. LOANS RECEIVABLE

The City's and Agency's loans receivable as of June 30, 2001 total \$20,309,972, consisting of the following types:

<u>Description</u>	<u>Amount</u>
CDBG Loans	\$ 521,881
Housing Rehabilitation Loans	1,287,825
Jasmine Way	741,116
Sunrise Meadows	2,656,839
San Pedro Gardens	762,750
Abbott Critical Care Systems	782,632
Morgan Hill Ranch Family Housing	3,185,470
Village Avante Apartments	1,605,713
Village Avante Apartments 2	594,578
Villa Ciolino	2,501,727
Church Street	3,064,541
Other Loans	<u>2,604,900</u>
Total	<u>\$ 20,309,972</u>

(a) CDBG Loans/Housing Rehabilitation Loans

The City administers two home improvement revolving loan funds using Federal Community Development Block Grant funds (CDBG) and Redevelopment Agency Housing monies. The program provides below market rate loans, secured by deeds of trust, to eligible participants for housing rehabilitation. Although payments for most loans are amortized over an established payment schedule, some loans allow

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

6. LOANS RECEIVABLE, Continued

for deferred payment of accrued interest and principal until the homeowner's property is sold or transferred, primarily for seniors and very low income families. Repayments received from the outstanding loans are used to make additional housing rehabilitation loans. As of June 30, 2001, the City had \$521,881 of outstanding CDBG loans and the Agency had \$1,287,825 in outstanding home improvement loans.

(b) *Jasmine Way*

The Agency also issued "sweat equity" loans in 1989, secured by deeds of trust, to 15 low and moderate income families to purchase homes. Interest accrues at the rate of 7% annually for 10 years after the execution of the loan. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 10 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven.

As of June 30, 2001, the City had \$741,116 of these loans outstanding in its Redevelopment Agency Capital Project Fund.

(c) *Sunrise Meadows*

The Sunrise Meadows project consisted of 24 self-help homes reserved for low income households, and 36 contractor-built units reserved for those at median income. The Agency purchased the project (including land and all entitlements) for \$1,670,000. The entire project was then sold to South County Housing for this same amount. The Agency attached a third trust deed on each of the 24 self-help units for loan amounts varying from \$50,000 to \$100,000 each. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 20 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2001, the Agency had \$2,656,839 of loans outstanding in its Capital Project Fund.

City of Morgan Hill

Notes to the General Purpose Financial Statements For the year ended June 30, 2001

6. LOANS RECEIVABLE, Continued

(d) *San Pedro Gardens*

The San Pedro Gardens project consisted of 20 rental apartments and 16 self-help owner built units. The Agency issued a loan for \$825,000 in June 1991, secured by a third trust deed, with the following repayment terms:

- Of the total loan, \$400,000 has been split into 16 individual loans, secured by deeds of trust on the individual properties. The loan agreements allow the Agency to repurchase units during the first 4 years of ownership at a restricted sales price, and at market rates thereafter. If the borrower has occupied the unit for 20 years, 10% of the balance outstanding will be forgiven each year and the loan will be totally canceled at year 30. As of June 30, 2001, the balance for these loans was \$325,000.

The remaining \$425,000 of the loan accrues simple interest at 1% per year. Interest payments only are due on May 1st of each year payable solely from the surplus funds in the borrower's ground lease rent fund. Portions not paid due to insufficient funds shall accrue interest and be due on May 1st of the following year until paid. All principal and interest remaining unpaid shall be due and payable on June 15, 2021. As of June 30, 2001, the Agency had \$425,000 of these loans outstanding in its Capital Project Funds. At June 30, 2001, the loan has accrued interest of \$12,750 bringing the loan balance to \$437,750.

(e) *Abbott Critical Care Systems*

On September 20, 1995, the Agency approved an agreement with Abbott Critical Care Systems (Abbott), which offered Abbott \$2.275 million in financial incentives, which included right-of-way purchase and traffic fee credits, to move their laboratories to the Morgan Hill Business Ranch within the City limits. In addition, the agency approved a loan, secured by a deed of trust, in the amount of \$610,000 to Abbott with a 5% interest rate. At June 30, 2001, the loan has accrued interest of \$172,632 bringing the loan balance to \$782,632.

City of Morgan Hill

Notes to the General Purpose Financial Statements For the year ended June 30, 2001

6. LOANS RECEIVABLE, Continued

(f) *Morgan Hill Ranch Family Housing*

The Morgan Hill Ranch Family Housing Project (Project) consists of residential rental units and a day care center in the Project area. The Agency made a principal predevelopment loan of \$10,000 in fiscal year 1995/1996 and principal development loan of \$610,579 in fiscal year 1996/1997. The Agency provided an additional loan for land acquisition and construction costs in the amount of \$2,524,585 in fiscal year 1997/1998. Commencing on the date of the first disbursement of the loans, the loans accrue simple interest at 3% per annum. At June 30, 2001, the loan has accrued interest of \$40,306, bringing the loan balance to \$3,185,470. The Association began making payments on its loans on the first May 1 following the calendar year in which the Morgan Hill Ranch Family Housing units became occupied. All loans are secured by deeds of trust.

(g) *Village Avante Apartments*

On June 1, 1999, the Agency entered into an agreement with Don Avante Family Homes, Inc. to lend the lesser of \$1,540,000 or so much as shall be disbursed under the loan agreement for the acquisition and rehabilitation of the existing Village Avante 112-unit housing project located in the identified Agency Project Area. The loan accrues simple interest at a rate of 4% per annum on the unpaid balance with annual payments until April 1, 2039 and is secured by a deed of trust. The current unpaid balance at June 30, 2001 was \$1,605,713.

(h) *Village Avante Apartments 2*

On March 22, 2000, the Agency Board authorized a loan to Don Avante Associates II in the amount of \$640,000. This loan is to provide more attractive and durable landscaping, new steel-post privacy fencing at each patio and new black vinyl-coated chain link fencing along the west property line. The loan also included provisions for site and street lighting to create a safer environment at night. The note is a residual receipts note with a 40-year term. It accrues simple interest at a rate of 4% per annum and is secured by deed of trust. The balance at June 30, 2001 was \$594,578.

(i) *Villa Ciolino*

On November 23, 1999, the Morgan Hill Redevelopment Agency Board approved a loan of \$1.9 million to South County Housing Corporation to acquire a blighted trailer park and housing project. Under the terms of the loan, South County Housing

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

6. LOANS RECEIVABLE, Continued

will remove and replace 21 occupied but dilapidated housing units, rehabilitate 8 more, and add 13 additional apartments to create a new 42-unit rental housing complex. The loan is a residual receipt note in second position, at 4% compounded annually, with a term of 55-years, and is secured by a deed of trust.

On December 15, 1999, the Redevelopment Agency Board modified the interest rate from compound to simple at the request of the Low Income Housing Tax Credit Limited Partner tax counsel.

On June 28, 2000, the loan was further modified by approving an increase of \$475,000 to cover increased costs of material and labor incurred because of an increased scope of off-site work and the pressures of a very busy construction market place. The balance at June 30, 2001 was \$2,501,727.

(j) *Church Street Apartments*

On August 31, 2000, the Redevelopment Agency Board entered into an agreement to loan \$1.35 million to South County Housing to purchase two parcels and develop an affordable housing project. On December 6, 2000, the Agency Board approved additional funding to the Church Street Apartments housing project in the amount of \$1.9 million for the acquisition of four vacant parcels. This housing project will combine up to 72 residential family apartments to lower income families including a minimum of 23 replacements units and approximately 10,000 square feet of commercial space. The apartment units will be located in 2 and 3 story buildings with up to 12 units located on the second floor of the commercial building. The loan is secured by a deed of trust. The balance of the Church loan at June 30, 2001 was \$3,064,541.

The California Housing Finance Agency (CHFA) will be reimbursing the Agency for part of this disbursement through its HELP loan program. The Agency Board approved the CHFA loan in the amount of up to \$1 million. This is an unsecured loan to the Agency for use as "holding" funds for housing projects in development.

(k) *Other Loans*

The City and Agency have issued loans for several other projects, all of which are secured by deeds of trust. Detailed information for these loans is as follows:

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

6. LOANS RECEIVABLE, Continued

<u>Project Name</u>	<u>Loan Balance Outstanding</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Special Provisions of Loan</u>
Morgan Hill Grange	\$ 574,468	7.0%	2026	Loan will be forgiven at maturity unless property is transferred
Bridge Counseling Ctr	92,750	3.0%	2020	Interest and principal due at maturity
Methodist Church	32,236	None	2005	Balance due if sold or leased
Sycamore Glen	302,000	4.6%	2028	Interest and principal due at maturity
South County Housing - (Skeels Hotel)	222,109	3.0%	2005	Interest and principal due at maturity
GMP Metal Plating, Inc.	8,333	None	2002	None
Police Housing	28,455			Interest and principal deferred 5 yrs must be a police officer of the City
Specialized Assist	42,879	4.0%	2030	Interest and principal deferred 5 yrs must be <i>Specialized</i> employee
Woodland Hills	71,641	various	various	various
Specialized Loan	438,848	6.0%	2039	After 10 yrs-interest free
MH School Relocation	288,862	6.0%	2025	Interest and principal deferred 10 yrs
Employee Housing Asst.	469,821	5.6%	2030	None
Gayle Richter	32,498	6.5%	2016	None
Total	<u>\$ 2,604,900</u>			

Recognition of Valuation Allowance by Recording Deferred Revenue for Notes and Loans Receivable

A valuation allowance of these loans receivable has been recognized by recording deferred revenue for the portion of loans and notes where there is a significant possibility that they will become uncollectible or be forgiven by the City or agency at a future date if all of the terms of the loans have been met (see Note 7b).

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

7. NOTES RECEIVABLE

(a) *Public Works Fee Financing Agreements*

The City has established a public works fee financing program (Program) to assist businesses in specified industrial and commercial use categories in paying various public works and utility connection fees over a period of time rather than in a lump sum at the time otherwise specified in applicable City ordinances and regulations. The notes are secured by deeds of trust and include interest at prime rate in January of each year. The amount of these notes outstanding as of June 30, 2001 was \$112,771.

(b) *Recognition of Deferred Revenue for Notes and Loans Receivable*

The City has recognized a valuation allowance by recording deferred revenue for the portion of loans and notes where there is a significant possibility that they will become uncollectible or forgiven by the City or Agency at a future date if all of the terms of the loans have been met. The remaining noncurrent balance is reflected as a reserve of fund balance.

	General Fund	Special Revenue Funds	Capital Project Funds	Enterprise Funds	Total
Loans Receivable	\$ 469,821	\$ 521,881	\$ 19,318,270	-	\$ 20,309,972
Notes Receivable	-	-	3,558	\$ 109,213	112,771
June 30, 2000 Balance	\$ 469,821	\$ 521,881	\$ 19,321,828	\$ 109,213	\$ 20,422,743
Less:					
Deferred Revenue for Loans	(469,821)	(88,625)	(5,297,621)		(5,856,067)
Enterprise Notes Receivable	-			(109,213)	(109,213)
Reserved Fund Balance	\$ -	\$ 433,256	\$ 14,024,207	\$ -	\$ 14,457,463

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

8. LONG-TERM DEBT

Summary of Changes in Long-Term Debt

	<u>General Long-Term Debt Account Group</u>			<u>Proprietary Funds</u>	
	<u>Special</u>	<u>Redevelopment</u>	<u>Comp.</u>	<u>Long-Term Debt</u>	
	<u>Assessment</u>	<u>Agency</u>	<u>Absences</u>	<u>Enterprise Funds</u>	<u>Totals</u>
Balances,					
July 1, 2000	\$ 3,195,000	\$ -	\$ 345,734	\$ 5,588,576	\$ 9,129,310
Additions	-	5,159,815	181,641	-	5,341,456
Retirements	(715,000)	-	(135,415)	(195,617)	(1,046,032)
balances,					
June 30, 2001	\$ 2,480,000	\$ 5,159,815	\$ 391,960	\$ 5,392,959	\$ 13,424,734

(a) *Special Assessment District Debt for which the City is Obligated in Some Manner*

Certain special assessment districts within the City have issued debt repayable out of special assessments levied on property in each respective district. The City is under no legal obligation to repay the special assessment debt. However, the City is required to make advances or to be the purchaser of last resort for property on which delinquent assessments are unpaid and it has therefore included this debt in its general purpose financial statements. The following is a schedule of debt outstanding for these districts as of June 30, 2001:

District/Debt Issue	Year Issued	Interest	Principal Matures		Outstanding June 30, 2001
		Rate	Annual Amount	Period	
Encino Hills	1986	9.00%	\$75,000	2001-2002	\$ 75,000
Morgan Hill Business Pk	1986	7.87-7.88%	355,000	2001-2002	355,000
Sutter Business Park	1986	8.00%	255,000	2001-2002	255,000
Cochrane Business Pk	1986	8.00-8.25%	95,000-210,000	2001-2012	1,615,000
Joleen Way	1992	10.00%	20,000-30,000	2001-2009	180,000
Total Special Assessment Bonds Outstanding					\$ 2,480,000

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

8. LONG-TERM DEBT, Continued

As of June 30, 2001, there were no delinquent assessments receivable for the above districts. Revenues collected were sufficient to make the required debt service payments, which amounted to \$951,747 for fiscal year 2000-01.

(b) *Redevelopment Agency Long-Term Debt*

The Redevelopment Agency had \$5,159,815 in long-term debt as of June 30, 2001, comprised of \$909,815 for the California Housing Finance Agency (CHFA) loan and \$4,250,000 for the Gunderson property as described below.

On October 5, 2000, the Agency entered into a loan agreement with CHFA. This HELP loan is to be used as a revolving source of funds for the purpose of making loans to property owners or operators for acquisition and predevelopment expenses associated with the aggregation of parcels for multifamily rehabilitation and/or new construction developments. This loan is for the South County Housing Church Street project. The loan payment has been deferred for 10 years. The balance of this loan at June 30, 2001 is \$909,815.

On April 26, 2001, the Agency entered into a loan agreement for property acquisition of the Gunderson property in the amount of \$4,250,000. This loan is to be paid in two installments. The first installment in the amount of \$1,000,000 will be paid on April 26, 2002, and the second installment of \$3,250,000 will be paid on April 26, 2004.

(c) *Compensated Absences*

The timing of payments for accrued vested vacation, sick leave, and compensatory time benefits (compensated absences) is not certain and thus not included in the above schedule. This \$391,960 obligation will be payable by governmental funds from resources to be received in future periods.

(d) *Other Long-Term Debt (Enterprise Funds)*

The following is a schedule of bonds payable and certificates of participation, net of unamortized discount, as of June 30, 2001 by individual issue.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

8. LONG-TERM DEBT, Continued

Bond	Due Serially to	Interest Rates	Outstanding at June 30, 2001
Enterprise Funds:			
1979 Sewer Revenue Bonds	2002	7.500%	\$ 52,858
1993 Water Facilities Loan	2017	7.125%	1,182,993
1999 Certificates of Participation	2021	6.500%	4,157,108
Total Long-Term Debt			<u>\$ 5,392,959</u>

1979 Sewer Revenue Bonds

On September 5, 1979, the City issued bonds in the amount of \$650,000 under the Sewer Revenue Bond Act of 1933. Bond proceeds were used to pay the City's share of the costs of sewage treatment plant improvements, treatment plant land purchases, and sewage interceptor line construction. These facilities are jointly owned with the City of Gilroy. Bonds are secured solely by a first lien on gross revenues of the City's sewer utility. The City's outstanding balance at June 30, 2001 was \$52,858.

1993 Water Facilities Loan

On July 1, 1993, the California Statewide Communities Development Authority (Development Authority) issued \$14,195,000 Senior Series 1993A Bonds and \$8,000,000 Subordinate Series 1993B Bonds. Proceeds from the bonds enabled the Development Authority to make loans to numerous California public entities (borrowers). The bonds are limited obligations of the Development Authority and are secured by a pledge of water revenues from the borrowers. The City borrowed \$1,902,645 from the Development Authority. The City's outstanding balance at June 30, 2001 was \$1,182,993. The 1993 Water Facilities Loan is due by July 2017 and bears interest at 7.125%. Proceeds from the loan were used to retire a \$1,313,863 water facilities loan and pay costs of issuance.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

8. LONG-TERM DEBT, Continued

In accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt, \$515,183, was deferred and is being amortized as a component of interest expense over the life of the new loan, which is equal to the remaining life of the refunded debt. In addition, the debt is shown net of this deferred amount.

1999 Certificates of Participation

On May 1, 1999, the City issued \$5,090,000 Refunding Certificates of Participation to provide funds to advance refund the outstanding \$4,550,000 principal amount of the 1991 Certificates. The balance outstanding for the 1999 issue at June 30, 2001 was \$4,157,108. A portion of the proceeds of the Certificates has been deposited in an escrow fund (the "1991 Certificates Escrow Fund") pursuant to an escrow agreement dated as of May 1, 1999, between the City and U. S. Bank Trust National Association, as escrow bank. Such amounts, together with monies transferred to the 1991 Certificates Escrow Fund from certain funds held by the trustee for the 1991 Certificates, have been invested in direct obligations of the United States of America which will mature in such amounts and at such times and bear interest at such rates as to provide amounts sufficient to pay each installment of interest and principal with respect to the 1991 Certificates to June 1, 2002 and to provide for the redemption on June 1, 2002 of the 1991 Certificates maturing on or after June 1, 2003 at the redemption of 102% of the principal of the 1991 Certificates maturing on or after June 1, 2003.

Complete financial information for the Development Authority may be obtained from American Government Financial Services, the company handling the bond issuance, at the following address:

American Government Financial Services
901 Sunrise Avenue, Suite A-16
Roseville, CA 95661

City of Morgan Hill
Notes to the General Purpose Financial Statements
For the year ended June 30, 2001

8. LONG-TERM DEBT, Continued

(e) Future Debt Service and Minimum Capital Lease Payment Requirements

	General Long-Term Debt		Proprietary Fund Debt		
	(A)	(B)	(C)		
Year Ending June 30,	Special Assessment	Agency Debt	Enterprise Funds		Totals
2002	\$ 975,469	\$ 1,000,000	\$ 604,896	\$	2,580,365
2003	262,840		546,839		809,679
2004	257,133	3,250,000	545,439		4,052,572
2005	260,365		548,839		809,204
2006	257,268		551,839		809,107
Thereafter	1,418,036	909,815	7,603,039		9,930,890
Subtotals	\$ 3,431,111	\$ 5,159,815	\$ 10,400,891	\$	18,991,817
Less interest, discounts and deferred charges	(951,111)	-	(5,007,932)		(5,959,043)
Totals	\$ 2,480,000	\$ 5,159,815	\$ 5,392,959	\$	13,032,774

Debt service payments for the above obligations are made from the following sources:

- (A) Special tax assessments secured by the related real properties.
- (B) Incremental property taxes authorized for the Agency and loan repayments.
- (C) Operating revenues recorded in the Water and Sewer Enterprise Funds.

(f) Bonds for which the Agency has No Obligation - La Crosse Village Project

The Agency has outstanding as of June 30, 2001 approximately \$5,300,000 of tax exempt multifamily mortgage revenue bonds due through December 1, 2027. These bonds were issued to provide funds for secured mortgage loans to builders of a multifamily housing project, the La Crosse Village Project. The purpose of the program is to provide needed rental housing for low to moderate income households. The Agency is required to set aside 20% of all units built in this project for low income households. The bonds are payable solely from payments made on the related secured mortgage loans. The unpaid balance is insured by mortgage guaranty insurance of the Federal Housing Authority (FHA).

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

8. LONG-TERM DEBT, Continued

In the opinion of the Agency officials, these bonds are not payable from any revenues or assets of the Agency or the City. Neither the faith and credit nor the taxing power of the Agency, the state, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying general-purpose financial statements.

(g) *Special Assessment Debt for which the City is Not Obligated in Any Manner*

Certain special assessment districts are established in various parts of the City to provide improvements to properties located in those districts. Properties in the assessment districts listed below are assessed for the cost of improvements and these assessments are payable solely by property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or to be the purchaser of last resort of foreclosed properties in these special assessment districts, nor is it obligated to advance City funds to repay this debt in the event of default. At June 30, 2001, the total balance of these districts' outstanding debt was \$29,830,000, comprised of \$6,000,000, \$635,000, \$11,245,000, \$950,000, and \$11,000,000 for the Morgan Hill Business Ranch I, Morgan Hill Business Ranch II, Morgan Hill Ranch 98, Tennant Avenue Business Park, and Madrone Business Park Series A and B assessment districts, respectively.

(h) *Legal Debt Limit and Debt Margin*

The City's legal debt limit and debt margin was \$470,755,906 as of June 30, 2001.

9. SEWER CAPACITY RIGHTS

In May 1992, the City entered into a Joint Powers Agreement with the City of Gilroy to create the South County Regional Wastewater Authority (the Authority). The Authority was formed to purchase or acquire property and own and operate wastewater treatment facilities through cooperative action.

In September 1992, the Authority issued bonds totaling \$66,480,000 of which the City's portion (42%) was \$28,065,000. The bonds mature serially through August 2022 and bear interest at rates ranging from 4.5% to 5.75%. Under the Joint Powers Agreement, proceeds from the City's portion of the bonds were used to retire \$5,000,000 outstanding 1988 Sewer Certificate of Participation (COPS) and to finance the City's share of the capacity expansion costs for the sewage treatment facility.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

9. SEWER CAPACITY RIGHTS, Continued

The City's portion of the capacity rights, totaling \$22,290,776, is capitalized in the Enterprise Funds. However, the City is not considered to have an equity interest or rights to any of the assets of this joint venture other than possible residual claims upon dissolution. Thus, no provision for the City's share of the joint venture's net assets and income or loss has been made in the Enterprise Funds.

The bonds are limited obligations of the Authority and are secured by a pledge of net revenues of the City's sewer enterprise fund and those of the City of Gilroy. The City is obligated to make installment payments to the Authority in the amount of the debt service requirements applicable to its portion of the debt. The City maintained sufficient sewer rates to make the required payments. Complete financial statements for the Authority may be obtained from the City of Gilroy (which maintains the financial records for the Authority) at the following address:

City of Gilroy
Attention: Finance Department
7351 Rosanna Street
Gilroy, CA 95020.

Future installment payments due by the City as of June 30, 2001 are as follows:

Year ending June 30	Installment Payment due
2002	\$ 2,002,098
2003	2,002,818
2004	2,005,800
2005	2,006,006
2006	2,003,744
Thereafter	34,059,668
Total principal and interest payments	\$ 44,080,134
Less amounts representing:	
Interest	(18,595,134)
Discounts	(1,666,160)
Total principal amount due	<u>\$ 23,818,840</u>

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

10. EMPLOYEES' RETIREMENT PLAN

Plan Description

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the Fund's annual financial report may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Public safety employees and all other employees have an obligation to contribute 9% and 7% of their salary to the Fund, respectively. The City makes the contributions required of City employees on their behalf and for their account, with the exception of safety and certain management personnel who are contributing the obligation through their earnings. The City is required to contribute at an actuarially determined rate. The required employer contribution rates for fiscal year 2000-01 were 0% for public safety personnel and 0% for miscellaneous employees of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. For fiscal year ending June 30, 2001, CalPERS covered payroll totaled \$8,476,965. Employee contributions to the fund were \$646,893 paid by a combination of management employees, safety employees, and the City.

Annual Pension Cost

The City's annual pension cost for the Fund was equal to the City's required and actual contributions which was determined as part of the 1999 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses) and (b) projected salary increases that vary by duration of service. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of assets was determined using

City of Morgan Hill

Notes to the General Purpose Financial Statements For the year ended June 30, 2001

10. EMPLOYEES' RETIREMENT PLAN, Continued

a technique that smooths the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. The unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of any unfunded actuarial liabilities (or excess assets) of the City ends on June 30, 2019.

Three-Year Trend Information

The following table shows the City's required contributions and the percentage contributed, for the current year and each of the preceding two years.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/1999	238,341	100%	0
6/30/2000	256,981	100%	0
6/30/2001	278,735	100%	0

11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise activities which provide water and sewer services and financing for those services. Segment information as of and for the year ended June 30, 2001 is as follows:

	Sewer Operations	Sewer Mitigation	Water Financing Corporation	Water Operations	Water Mitigation	Eliminations	Total
Operating revenues	\$ 5,876,873	\$2,360,388	\$ 256,135	\$ 5,955,510	\$ 555,632	\$ (256,135)	\$ 14,748,403
Depreciation expense	561,251	98,518	-	1,109,507	55,575	-	1,824,851
Operating income	1,160,578	2,162,469	256,135	1,113,286	432,137	(256,135)	4,868,470
Operating Transfers (net)	1,592,849	(2,143,405)	-	194,826	(470,698)	-	(826,428)
Contributed capital	7,624,084	-	-	14,438,595	-	-	22,062,679
Net income (loss)	2,672,025	(66,098)	-	1,493,281	69,543	-	4,168,751
Property, plant and equipment, net	18,022,675	1,113,458	-	28,147,884	1,278,357	-	48,562,374
Net working capital	14,078,720	4,858,311	-	8,751,181	1,488,052	-	29,176,264
Total assets	55,473,494	6,269,123	4,157,108	37,516,707	2,766,409	(4,157,108)	102,025,733
Long-term liabilities	23,238,913	-	4,002,108	5,187,815	-	(4,002,108)	28,426,728
Total equity	31,153,258	6,059,289	-	31,711,250	2,766,409	-	71,690,206

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

12. FUND EQUITY

Fund balance and retained earnings consist of reserved and unreserved amounts. Reserved fund balance and retained earnings represent that portion which is not available for appropriation or expenditure, or is legally segregated for a specific future use.

Fund balance reserves of the Governmental Fund Types as of June 30, 2001, were as follows:

	General	Special Revenue	Debt Service	Capital Projects
Reserved for:				
Encumbrances	\$ 143,277	\$ 2,073,250		\$ 5,233,584
Advance to other funds				128,593
Low and moderate income housing				18,583,334
Noncurrent loans and notes receivables		433,256		1,591,928
Properties held for resale				71,049
Capital improvements				10,435,909
Debt service			\$ 1,411,803	
Total Reserved	\$ 143,277	\$ 2,506,506	\$ 1,411,803	\$ 36,044,397
Designated for:				
Economic development				18,260,379
Economic Uncertainty	1,000,000			
Fire Master Plan Implementation	1,000,000			
Emergencies	1,000,000			
Unreserved, undesignated	7,608,394	7,180,397		7,105,900
Total Fund Balance	\$ 10,751,671	\$ 9,686,903	\$ 1,411,803	\$ 61,410,676

Fund reserves for the Proprietary Fund Types as of June 30, 2001 were as follows:

Reserved for:

Capital improvements (Enterprise Funds) \$ 8,825,698

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for capital projects. Such plans or intentions are subject to change, have not been legally authorized, and may not result in expenditures. The Redevelopment Agency designated, under the Capital Projects Fund Type, \$18,260,379 in fund balance as of June 30, 2001 for future economic development. In addition, \$3,000,000 was designated in the General Fund for economic uncertainty, fire master plan implementation, and emergencies, as reflected above.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

13. INTERFUND TRANSACTIONS

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. A summary of current interfund receivable and payable balances as of June 30, 2001 follows:

	<u>Due from other funds</u>	<u>Due to other funds</u>
Redevelopment Agency	\$ 128,593	
Housing Block Grant		\$ 128,593

14. COMMITMENTS/CONTINGENCIES

(a) *Grant Programs*

The City participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Audits of these programs for the year ended June 30, 2001, have not yet been conducted. Accordingly, the City's compliance with applicable program requirements will be determined at a future date. The amount of any expenditures which may be disallowed by the grantor agencies cannot be determined at this time. However, the City expects such amounts to be immaterial.

(b) *Low and Moderate Housing Requirements of the Agency*

The California Health and Safety Code, Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes. The Agency established the Housing Capital Projects Fund to account for this commitment and has reserved \$17,673,519 for such expenditures since the Agency's inception. The Agency has expended approximately \$13,212,669 for low and moderate income housing since its inception.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

14. COMMITMENTS/CONTINGENCIES, Continued

(c) *Redevelopment Plan Requirements of the Agency*

Effective January 1, 1995, the State Legislature passed Assembly Bill 1290. This legislation imposes several new requirements on redevelopment agencies and permits the establishment of new time limits for the issuance of debt, plan termination, and the collection of tax increment. The Agency amended its redevelopment plan during the year ended June 30, 1995 to be in accordance with these requirements.

As part of AB 1290, the Agency is required to report any "excess surplus" to the Federal Department of Housing and Community Development. An excess surplus exists for a fiscal year if the unencumbered balance at year-end in the Agency's Low and Moderate Housing Capital Project Fund exceeds the greater of \$1 million or the aggregate amount of tax increments deposited into this fund during the preceding four fiscal years. If any excess surplus is not spent or encumbered within three years it must be transferred to the County's housing authority. The Agency did not have any excess surplus housing funds for the fiscal year ended June 30, 2001, based on calculations by the Agency's management.

As detailed in the current redevelopment plan amended November 1999, the maximum amount of tax increment revenue that the Agency may collect over its lifetime is \$247 million. The Agency had collected approximately \$126 million of tax increment revenue from its inception through June 30, 2001, leaving approximately \$121 million remaining to be collected in the future through the year 2021.

(d) *Risk Management*

The City Attorney and the City's Risk Manager have determined that the City's probable loss contingencies, which are accrued for as the estimated liability for claims and judgments as of June 30, 2001, are approximately \$992,429. This amount is based on the requirements of GASB Statements No. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the reported liability since June 30, 1999 resulted in the following:

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

14. COMMITMENTS/CONTINGENCIES, Continued

	Unemployment and Workers' Compensation	General Liability	Total
Liability as of 6/30/99	\$ 480,294	\$ 303,991	\$ 784,285
Claims and changes in estimates during the year ended 6/30/00	36,726	70,318	107,044
Claims payments during the year ended 6/30/00	(155,798)	(162,370)	(318,168)
Liability as of 6/30/00	\$ 361,222	\$ 211,939	\$ 573,161
Claims and changes in estimates during the year ended 6/30/01	452,984	172,095	625,079
Claims payments during the year ended 6/30/01	(142,865)	(62,946)	(205,811)
Liability as of 6/30/01	\$ 671,341	\$ 321,088	\$ 992,429

In addition, with respect to the general liability accrual, the City has several other unsettled lawsuits filed or claims asserted against it as of June 30, 2001.

The City has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City. As a result of such review, the City has categorized such claims and lawsuits as "remote" loss contingencies, as defined in FASB Statement No. 5.

The final outcome of claims and lawsuits which have been categorized as remote loss contingencies is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying general purpose financial statements relative to the potential outcome of such claims and lawsuits. The ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying general-purpose financial statements. The retained earnings balances in the City's General Liability, Workers' Compensation and Unemployment Insurance Internal Service Funds include a reasonable reserve for anticipated future catastrophic losses.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

14. COMMITMENTS/CONTINGENCIES, Continued

(e) *Gann Spending Limitation Initiative*

Under Article XIII B of the California Constitution, the City is restricted as to the amount of annual appropriations from proceeds of taxes. If the proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2001, based on calculations by the City's management, proceeds of taxes did not exceed appropriations.

(f) *Construction and Other Significant Commitments*

Listed below are the projects for uncompleted contracts over \$200,000 outstanding as of June 30, 2001 for all funds.

<u>Project name</u>	<u>Contract Outstanding</u>
Dunne Avenue/101 Widening	\$ 1,235,346
LED Traffic Light Conversion	223,103
Community Center	243,314
Library	1,058,019
Polybutylene Water Service Replacement	369,600
Edmundson Water Tank	228,000
Community Park Imp/ADA Park Upgrades	219,985

(g) *Contracting out of Fire and Emergency Medical Services*

On September 6, 1996, the City approved a fire and emergency service agreement with the Santa Clara County Central Fire Protection District, (the District), with an effective start date of October 2, 1996. The agreement consisted of the following terms:

- The agreement is effective for ten years ending July 1, 2005. At the expiration of this ten-year agreement, it shall automatically renew for an additional ten-year period unless the City or District provides written notice of non-renewal to the other party at least 180 days prior to the expiration date of the agreement.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

14. COMMITMENTS/CONTINGENCIES, Continued

- The City will pay the District approximately \$2,755,000 each year for services provided under this agreement (prorated for the number of days that service is actually provided), adjusted each year for the change in the Consumer Price Index for the San Francisco Bay Area or the average annual cost of living increase in total compensation provided to all fire suppression non-management employees of the District, whichever is less.
- In the event an additional fire station is needed to provide adequate fire and emergency medical services to the City, an additional \$1.3 million (adjusted for inflation or wage increases, whichever is less) shall be charged to the City by the District for these services annually.
- The District shall submit to the City by January 1st of each year a proposal for capital needs for fire services for the City to consider in its budget process for the following fiscal year. Fire impact fees will not be used to offset contract costs unless mutually agreed. All capital expenditures contemplated must meet the legal requirements for using impact fees.

15. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in Internal Service Funds which were established during fiscal 1992. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported. The City's general purpose financial statements also reflect as expenses the premiums assessed for insurance coverage, which are based on periodic actuarial studies by the firms providing coverage to the City.

The City is self-insured for workers' compensation up to a maximum of \$250,000 per occurrence; purchased insurance covers the excess up to \$5,000,000 per year. The City is also fully self-insured for unemployment insurance. In addition, The City participates in the Association of Bay Area Governments Pooled Liability Insurance Network (ABAG-PLAN), a self-funded pooled insurance corporation established by

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

15. RISK MANAGEMENT

a joint powers authority in which the City is one of 30 members. ABAG-PLAN provides general liability insurance up to \$10,000,000 per occurrence through a combination of \$5,000,000 pool coverage and \$5,000,000 of excess insurance, subject to a \$50,000 deductible. The rights and responsibilities of the member agencies are governed by the bylaws of the ABAG-PLAN, the risk coverage agreement, and a related memorandum of coverage. Each member chooses its self-insured liability retention at a level between \$25,000 and \$250,000. Each member has a vote in approving the pool's self-insured retention level, in setting the coverage limit, in establishing the level of pool reserves, approving the premium allocation methodology for setting premiums for each member, and in approving the methodology for returning disburseable equity to members. ABAG-PLAN is responsible for administering the insurance program. ABAG-PLAN provides claims administration and risk management services to the members.

ABAG-PLAN also provides property insurance for the City, including a \$5,000 deductible per occurrence, except for vehicles where there is a \$10,000 deductible per occurrence. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the City's insurance coverage during the year ended June 30, 2001.

Complete financial statements for ABAG-PLAN may be obtained from their offices at the following address:

ABAG Plan Corporation
Finance Department
P.O. Box 2050
Oakland, CA 94604

16. JOINT POWERS AUTHORITY

The City and the Morgan Hill Unified School District formed the Corporation Yard Commission, a joint powers authority, in 1975. The Commission issued bonds for real property improvements and leased the property to the City and the School District. The annual lease payments made to the Commission were approximately equal to debt service payments on the bonds and operating costs of the Commission. The lease expired in December 1999, coinciding with the final payment on the bond issue. Title to the property vested with the City at the end of the lease term.

City of Morgan Hill

Notes to the General Purpose Financial Statements

For the year ended June 30, 2001

16. JOINT POWERS AUTHORITY

The City and the School District entered into a new lease agreement, effective May 22, 2000, whereby the City has leased a portion of the Corporation Yard to the District. Premises are leased for use as a bus barn for fueling, maintenance, parking and washing. The current lease expires December 31, 2006.

17. REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PENSION PLAN

SCHEDULE OF FUNDING PROGRESS

Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/98	10,473,965	14,615,974	(4,142,009)	139.5%	4,444,371	(93.197)%
6/30/99	12,950,112	17,291,697	(4,341,585)	133.5%	5,185,188	(83.731)%
6/30/00	14,820,976	19,160,293	(4,339,317)	129.3%	5,607,484	(77.384)%

Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/97	14,670,330	17,055,410	(2,385,080)	116.3%	1,641,704	(145.281)%
6/30/98	16,694,193	20,204,475	(3,510,282)	121.0%	1,907,349	(184.040)%
6/30/99	18,061,778	22,899,905	(4,838,127)	126.8%	1,814,242	(266.675)%

** Safety information for period 6/30/00 is not available

City of Morgan Hill

COMBINING AND INDIVIDUAL FUND AND ACCOUNT GROUP STATEMENTS AND SCHEDULES

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund balance or retained earnings, revenues and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be expended and the means by which spending activities are controlled. The City's funds are grouped as follows:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The measurement focus is upon the determination of changes in financial position, rather than upon net income. Governmental Fund Types include the General Fund, Special Revenue, Debt Service and Capital Project Fund Types.

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon the determination of net income. Proprietary Fund Types include Enterprise and Internal Service Funds.

Agency Funds

Agency funds are used to account for assets held by the City for others as a trustee or as an agent for individuals, private organizations, other governmental units and other funds.

Account Groups

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations.

City of Morgan Hill, California

GENERAL FUND

The General Fund accounts for all financial resources except those required to be accounted for in another fund. This is the fund used for the day-to-day operation of the City.

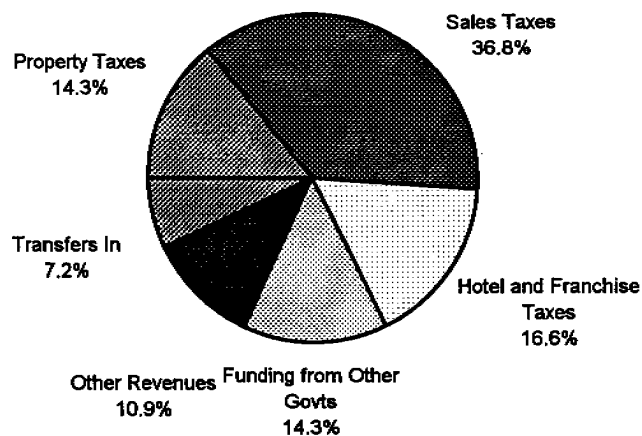
The General Fund receives its revenues from many sources, including the following:

- Taxes - including property taxes, sales taxes, hotel taxes, franchise & business licenses.
- Aid from other governmental agencies, including motor vehicle in lieu fees and grants.
- Other income, including licenses, permits and charges for current services and interest.

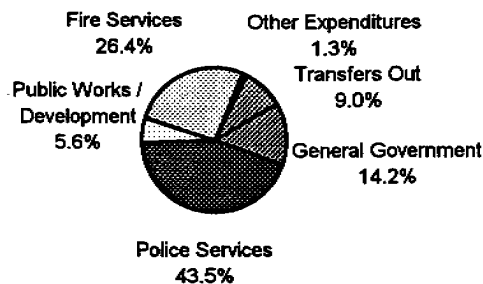
It uses this revenue to provide many different types of services to the public, including:

- Police and Fire Protection, including weed abatement and emergency services.
- General administrative and support services, including the City Manager and City Clerk.
- Other expenditures, including building, planning and engineering and park maintenance.

Revenue and Transfer In Distribution - Total \$15.0 Million



Expenditure and Transfer Out Distribution Total \$12.7 million



City of Morgan Hill, California

General Fund

Comparative Balance Sheets

June 30, 2001 and 2000

	2001	2000
<hr/>		
<u>Assets</u>		
Pooled cash and investments	\$ 10,228,761	\$ 7,994,020
Receivables:		
Taxes and special assessments	1,230,315	1,159,119
Accrued interest	166,811	133,946
Other accounts receivable	269,019	268,127
Loans receivable	469,821	
	<hr/>	<hr/>
Total assets	<u>\$12,364,727</u>	<u>\$ 9,555,212</u>
 <u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts payable	\$ 935,698	\$ 888,168
Accrued liabilities	116,708	125,889
Deferred revenue	476,003	49,418
Vacation and compensated absence obligation	84,647	75,621
	<hr/>	<hr/>
Total liabilities	<u>\$ 1,613,056</u>	<u>\$ 1,139,096</u>
 Fund balances:		
Reserved for:		
Encumbrances	\$ 143,277	\$ 115,496
Unreserved:		
Designated	3,000,000	
Undesignated	7,608,394	8,300,620
	<hr/>	<hr/>
Total fund balances	<u>\$ 10,751,671</u>	<u>\$ 8,416,116</u>
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 12,364,727</u>	<u>\$ 9,555,212</u>

City of Morgan Hill, California

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non - GAAP Budgetary Basis)

Year Ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	2001			2000
	Revised Budget	Actual Plus Encumbrances	Variance	Actual Plus Encumbrances
Revenues:				
Property taxes and special assessments	\$ 1,922,335	\$ 1,848,188	\$ (74,147)	\$ 1,635,769
Sales taxes	4,462,817	5,532,132	1,069,315	4,454,774
Franchise, hotel and other taxes	2,113,061	2,803,261	690,200	2,525,798
Licenses and permits	144,200	200,892	56,692	134,568
Funding from other governmental agencies	1,830,895	2,146,538	315,643	1,821,261
Charges for current services	196,325	348,446	152,121	165,900
Investment income and rentals	468,960	859,365	390,405	483,242
Fines, forfeits, and other revenues	149,900	226,112	76,212	543,630
Total revenues	\$ 11,288,493	\$ 13,964,934	\$ 2,676,441	\$ 11,764,942
Expenditures:				
Current:				
General government	\$ 1,998,855	\$ 1,841,720	\$ 157,135	\$ 1,059,078
Police services	5,789,432	5,535,470	253,962	4,820,179
Fire services	3,350,183	3,350,334	(151)	3,118,160
Public works / development services	819,396	743,476	75,920	549,674
Capital outlay	230,610	229,280	1,330	67,970
Debt service:				
Interest and fiscal charges	7,129	6,275	854	6,001
Total expenditures	\$ 12,195,605	\$ 11,706,555	\$ 489,050	\$ 9,621,062
Excess (deficiency) of revenues over (under) expenditures	\$ (907,112)	\$ 2,258,379	\$ 3,165,491	\$ 2,143,880
Other financing sources (uses):				
Operating transfers in	\$ 1,242,464	\$ 1,083,356	\$ (159,108)	\$ 1,119,596
Operating transfers (out)	(1,177,463)	(1,149,457)	28,006	(2,320,254)
Total other financing sources (uses)	\$ 65,001	\$ (66,101)	\$ (131,102)	\$ (1,200,658)
Net increase (decrease)	\$ (842,111)	\$ 2,192,278	\$ 3,034,389	\$ 943,222
Adjustments to budgetary basis		143,277		\$ 115,496
Fund balances - beginning of year		\$ 8,416,116		\$ 7,312,570
Residual equity transfer in (out)				\$ 44,828
Fund balances - end of year		\$ 10,751,671		\$ 8,416,116

City of Morgan Hill

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the proceeds of special revenue sources, other than special assessments, and major capital projects, that are legally restricted to expenditures for specified purposes.

Supplemental Law Enforcement Services

This fund accounts for the receipt of one time General Fund revenues, AB3229 and grant monies to be used to fund additional police officers and one time capital expenditures.

Community Development

This fund accounts for revenues and expenditures associated with processing development applications, building inspections, engineering services and related fee supported activities.

Street Maintenance

This fund receives monies from state gas taxes based on population, and the funds may be expended only for street and road repair, maintenance, design, construction and traffic signal design and installation. Proposition 111 monies from state gas taxes are received for the Congestion Management Program.

General Plan Update

This fund accounts for revenues and expenditures associated with the City's general plan update.

Housing Block Grant

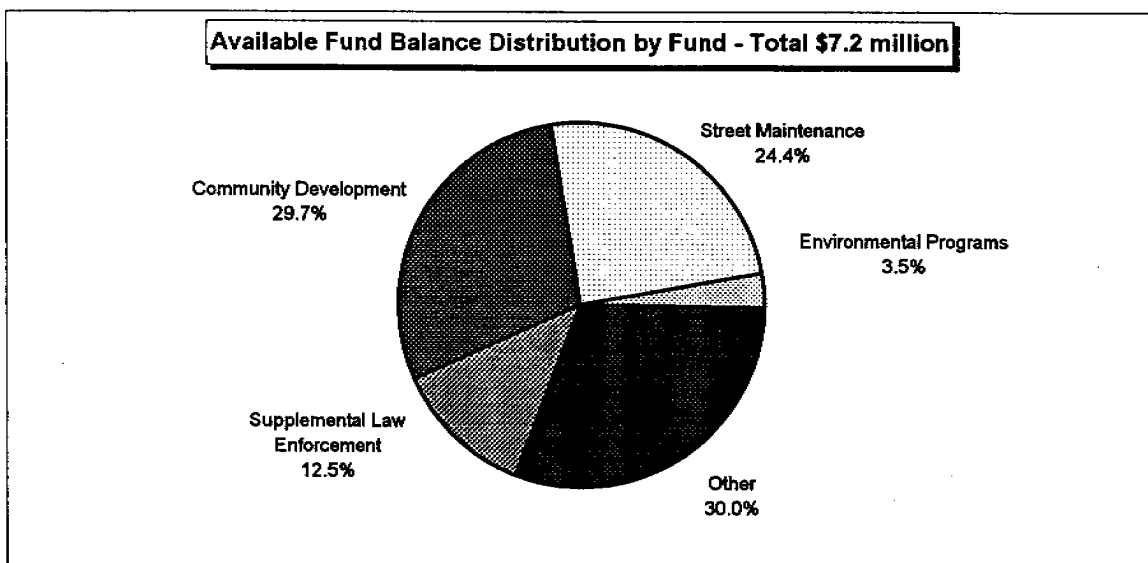
This fund receives revenues from Santa Clara County on a reimbursement basis, as a part of the federal government's program for low and moderate housing. Expenditures are restricted as to types of activities and nature of expenses, and must benefit low and moderate income individuals seeking housing.

Museum Rental

This fund receives fees from the City owned museum, which are used to offset its operating costs.

OES/FEMA

This fund accounts for the receipt of one time disaster relief revenues to be used to reimburse for the 1998 storm damage



City of Morgan Hill

SPECIAL REVENUE FUNDS (Continued)

Asset Seizure

This fund accumulates revenue from the seizure of assets obtained by the police department from drug enforcement activities. Expenditures may be made from these funds only for police related activities in accordance with guidelines established by the state and federal governments.

Lighting and Landscape Districts

This fund derives its revenues from an assessment based on expenditures by the City for maintenance services to park areas within small developments. These services benefit the properties against which assessments are levied by ensuring proper upkeep.

Environmental Programs

Sources of funding are limited to 6% of the franchise fee and revenues from the countywide AB939 fee, which are used to fund expenditures related to solid waste management.

Mobile Home Park Rent Stabilization

This fund was created to monitor the fees charged to the mobile home park owners and tenants, as regulated by the Rent Stabilization Ordinance, and to ensure that they cover the City's cost for arbitration and litigation.

Housing Development Fund

This fund was established to account for funds available for activities that benefit elderly persons.

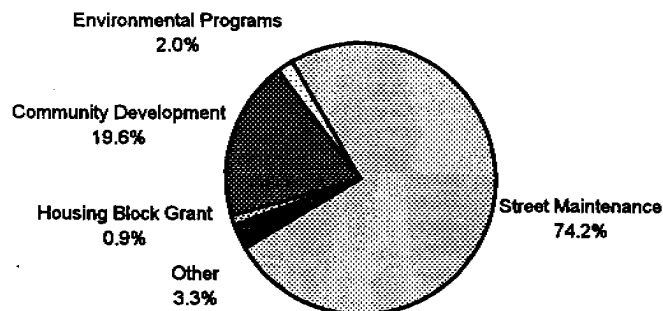
Government/Public Access

This fund was created to account for the administering of the cable television franchise and the public access contract.

Community Center Fund

This fund was created to account for the start-up costs of the new Community/Cultural Center.

Expenditure Distribution by Fund - Total \$11.6 million



City of Morgan Hill, California

Special Revenue Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

	Supplemental Law Enforcement	Community Development	Street Maintenance	General Plan Update
Assets				
Pooled cash and investments	\$ 849,714	\$ 2,633,783	\$ 2,931,093	\$ 156,054
Restricted pooled cash and investments			10,794	
Receivables:				
Accrued interest	16,685	38,052	31,298	2,348
Other accounts receivable	33,027		1,069,753	
Loans receivable				
Total assets	\$ 899,426	\$ 2,671,835	\$ 4,042,938	\$ 158,402
Liabilities and Fund Balances				
Liabilities:				
Accounts payable		\$ 67,790	\$ 715,711	\$ 72
Accrued liabilities		26,183	4,745	542
Due to other funds				
Deferred revenue				
Vacation and compensated absence obligation		39,410	4,928	263
Total liabilities	\$ -	\$ 133,383	\$ 725,384	\$ 877
Fund balances:				
Reserved for:				
Encumbrances		\$ 406,476	\$ 1,566,956	\$ 54,645
Noncurrent loans and notes receivable				
Unreserved, undesignated	\$ 899,426	2,131,976	1,750,598	102,880
Total fund balances	\$ 899,426	\$ 2,538,452	\$ 3,317,554	\$ 157,525
Total liabilities and fund balances	\$ 899,426	\$ 2,671,835	\$ 4,042,938	\$ 158,402

<u>Housing Block Grant</u>	<u>Museum Rental</u>	<u>OES/ FEMA</u>	<u>Asset Seizure</u>	<u>Lighting and Landscape</u>	<u>Environmental Programs</u>
\$ 229,645	\$ 6,437	\$ 8,290	\$ 37,159	\$ 94,655	\$ 198,529
4,324	101	131	570	898	3,346
66,057					90,850
521,881					
<u>\$ 821,907</u>	<u>\$ 6,538</u>	<u>\$ 8,421</u>	<u>\$ 37,729</u>	<u>\$ 95,553</u>	<u>\$ 292,725</u>
\$ 515	\$ 109			\$ 6,126	\$ 2,884
14,673				251	1,335
128,593					
88,625					
					553
<u>\$ 232,406</u>	<u>\$ 109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,377</u>	<u>\$ 4,772</u>
433,256				\$ 595	\$ 39,916
156,245	\$ 6,429	\$ 8,421	37,729	88,581	248,037
<u>\$ 589,501</u>	<u>\$ 6,429</u>	<u>\$ 8,421</u>	<u>\$ 37,729</u>	<u>\$ 89,176</u>	<u>\$ 287,953</u>
<u>\$ 821,907</u>	<u>\$ 6,538</u>	<u>\$ 8,421</u>	<u>\$ 37,729</u>	<u>\$ 95,553</u>	<u>\$ 292,725</u>

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

	Mobile Home Park Rent Stabilization	Housing Development Fund	Government/ Public Access	Community Center Fund
Pooled cash and investments	\$ 42,163	\$ 1,128,909	\$ 33,417	\$ 517,480
Restricted pooled cash and investments				
Receivables:				
Accrued interest	631	17,332	418	7,966
Other accounts receivable		1,500	8,213	
Loans receivable				
Total assets	\$ 42,794	\$ 1,147,741	\$ 42,048	\$ 525,446
Accounts payable	\$ 75	750	\$ 1,870	
Accrued liabilities			457	
Due to other funds				
Deferred revenue				
Vacation and compensated absence obligation			140	
Total liabilities	\$ 75	\$ 750	\$ 2,467	\$ -
Reserved for:				
Encumbrances			\$ 4,662	
Noncurrent loans and notes receivable				
Unreserved, undesignated	\$ 42,719	1,146,991	34,919	\$ 525,446
Total fund balances	\$ 42,719	\$ 1,146,991	\$ 39,581	\$ 525,446
Total liabilities and fund balances	\$ 42,794	\$ 1,147,741	\$ 42,048	\$ 525,446

TOTALS	
2001	2000
\$ 8,637,683	\$ 6,558,126
240,439	214,574
124,100	90,898
1,269,400	943,285
521,881	570,467
<u>\$ 10,793,503</u>	<u>\$ 8,377,350</u>

\$ 795,902	\$ 650,389
48,186	34,555
128,593	691,755
88,625	80,625
45,294	15,508
<u>\$ 1,106,600</u>	<u>\$ 1,472,832</u>

\$ 2,073,250	\$ 3,794,574
433,256	489,841
7,180,397	2,620,103
<u>\$ 9,686,903</u>	<u>\$ 6,904,518</u>
<u>\$ 10,793,503</u>	<u>\$ 8,377,350</u>

(Concluded)

City of Morgan Hill, California

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Supplemental Law Enforcement	Community Development	Street Maintenance	General Plan Update
Revenues:				
Property taxes and special assessments			\$ 487,165	
Funding from other governmental agencies	\$ 341,003		3,853,043	
Charges for current services		\$ 2,755,019	304	\$ 46,684
Investment income and rentals	63,623	163,692	119,572	10,906
Fines, forfeitures, and other revenues		6,660	4,154	
Total revenues	\$ 404,626	\$ 2,925,371	\$ 4,464,238	\$ 57,590
Expenditures:				
Current:				
General government				\$ 17,186
Police services				
Public works / development services		\$ 2,212,394	\$ 1,089,167	133,202
Capital outlay		67,973	7,547,761	
Total expenditures	\$ -	\$ 2,280,367	\$ 8,636,928	\$ 150,388
Excess (deficiency) of revenues over (under) expenditures	\$ 404,626	\$ 645,004	\$ (4,172,690)	\$ (92,798)
Other financing sources (uses):				
Operating transfers in	\$ 1,098	\$ 323,795	\$ 5,316,598	\$ 136,200
Operating transfers (out)	(306,011)	(105,550)	(78,565)	(4,520)
Total other financing sources (uses)	\$ (304,913)	\$ 218,245	\$ 5,238,033	\$ 131,680
Net increase (decrease)	\$ 99,713	\$ 863,249	\$ 1,065,343	\$ 38,882
Fund balances - beginning of year	799,713	1,675,203	2,252,211	118,643
Fund balances - end of year	\$ 899,426	\$ 2,538,452	\$ 3,317,554	\$ 157,525

Housing Block Grant	Museum Rental	OES/ FEMA	Asset Seizure	Lighting and Landscape	Environmental Programs
\$ 274,597		\$ 3,912		\$ 125,670	\$ 316,878 9,518
6,234 120	\$ 524	1,051	\$ 2,698	5,522	14,610 44,859
<u>\$ 280,951</u>	<u>\$ 524</u>	<u>\$ 4,963</u>	<u>\$ 2,698</u>	<u>\$ 131,192</u>	<u>\$ 385,865</u>
\$ 104,416	\$ 1,937		\$ 1,016	\$ 131,779	\$ 236,281
			1,036		
<u>\$ 104,416</u>	<u>\$ 1,937</u>	<u>\$ -</u>	<u>\$ 2,052</u>	<u>\$ 131,779</u>	<u>\$ 236,281</u>
\$ 176,535	\$ (1,413)	\$ 4,963	\$ 646	\$ (587)	\$ 149,584
		(1,812)		\$ (1,810)	\$ (3,620)
\$ -	\$ -	\$ (1,812)	\$ -	\$ (1,810)	\$ (3,620)
<u>\$ 176,535</u>	<u>\$ (1,413)</u>	<u>\$ 3,151</u>	<u>\$ 646</u>	<u>\$ (2,397)</u>	<u>\$ 145,964</u>
412,966	7,842	5,270	37,083	91,573	141,989
<u>\$ 589,501</u>	<u>\$ 6,429</u>	<u>\$ 8,421</u>	<u>\$ 37,729</u>	<u>\$ 89,176</u>	<u>\$ 287,953</u>

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Mobile Home Park Rent Stabilization	Housing Development Fund	Government/ Public Access	Community Center Fund
Revenues:				
Property taxes and special assessments			\$ 39,764	
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 2,402	\$ 71,335	2,089	\$ 21,392
Fines, forfeitures, and other revenues		35,000		
Total revenues	\$ 2,402	\$ 106,335	\$ 41,853	\$ 21,392
Expenditures:				
Current:				
General government	\$ 33,334		\$ 62,574	
Police services				
Public works / development services				
Capital outlay		\$ 1,265	2,557	
Total expenditures	\$ 33,334	\$ 1,265	\$ 65,131	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ (30,932)	\$ 105,070	\$ (23,278)	\$ 21,392
Other financing sources (uses):				
Operating transfers in	\$ 50,000		\$ 27,815	\$ 244,000
Operating transfers (out)	(450)		(905)	
Total other financing sources (uses)	\$ 49,550	\$ -	\$ 26,910	\$ 244,000
Net increase (decrease)	\$ 18,618	\$ 105,070	\$ 3,632	\$ 265,392
Fund balances - beginning of year	24,101	1,041,921	35,949	260,054
Fund balances - end of year	\$ 42,719	\$ 1,146,991	\$ 39,581	\$ 525,446

TOTALS	
2001	2000
\$ 969,477	\$ 1,050,428
4,482,073	1,179,296
2,802,007	1,612,630
485,650	266,156
90,793	200,738
<u>\$ 8,830,000</u>	<u>\$ 4,309,248</u>
\$ 588,523	\$ 686,823
	252
3,434,763	3,412,280
7,620,592	2,873,537
<u>\$ 11,643,878</u>	<u>\$ 6,972,892</u>
\$ (2,813,878)	\$ (2,663,644)
\$ 6,099,506	\$ 5,658,961
(503,243)	(1,239,186)
<u>\$ 5,596,263</u>	<u>\$ 4,419,775</u>
\$ 2,782,385	\$ 1,756,131
6,904,518	5,148,387
<u>\$ 9,686,903</u>	<u>\$ 6,904,518</u>
	(Concluded)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

SUPPLEMENTAL LAW ENFORCEMENT			
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Funding from other governmental agencies	\$357,424	\$ 341,003	\$ (16,421)
Charges for current services			
Investment income and rentals	8,830	63,623	54,793
Fines, forfeitures, and other revenues			
Total revenues	\$ 366,254	\$ 404,626	\$ 38,372
Expenditures:			
Current:			
General government			
Police services			
Public works / development services			
Capital outlay			
Debt service:			
Interest and fiscal charges			
Total expenditures	\$ -	\$ -	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ 366,254	\$ 404,626	\$ 38,372
Other financing sources (uses):			
Operating transfers in	1,098	\$ 1,098	
Operating transfers (out)	\$ (463,119)	(306,011)	157,108
Total other financing sources (uses)	\$ (462,021)	\$ (304,913)	\$ 157,108
Net increase (decrease)	\$ (95,767)	\$ 99,713	\$ 195,480
Adjustments to budgetary basis		-	
Fund balances - beginning of year		799,713	
Fund balances - end of year		\$ 899,426	

COMMUNITY DEVELOPMENT			STREET MAINTENANCE		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
			\$ 549,450	\$ 487,165	\$ (62,285)
			888,840	3,853,043	2,964,203
\$ 1,906,983	\$ 2,755,019	\$ 848,036	300	304	4
101,263	163,692	62,429	44,102	119,572	75,470
	6,660	6,660	30,000	4,154	(25,846)
<u>\$ 2,008,246</u>	<u>\$ 2,925,371</u>	<u>\$ 917,125</u>	<u>\$ 1,512,692</u>	<u>\$ 4,464,238</u>	<u>\$ 2,951,546</u>
\$ 2,788,037	\$ 2,550,897	\$ 237,140	\$ 424,913	\$ 1,120,754	\$ (695,841)
132,751	135,946	(3,195)	11,967,466	9,083,130	2,884,336
3,394		3,394			
<u>\$ 2,924,182</u>	<u>\$ 2,686,843</u>	<u>\$ 237,339</u>	<u>\$ 12,392,379</u>	<u>\$ 10,203,884</u>	<u>\$ 2,188,495</u>
\$ (915,936)	\$ 238,528	\$ 1,154,464	\$ (10,879,687)	\$ (5,739,646)	\$ 5,140,041
\$ 323,795	\$ 323,795		\$ 7,873,590	\$ 5,316,598	\$ (2,556,992)
(105,550)	(105,550)		(78,565)	(78,565)	
\$ 218,245	\$ 218,245	\$ -	\$ 7,795,025	\$ 5,238,033	\$ (2,556,992)
<u>\$ (697,691)</u>	<u>\$ 456,773</u>	<u>\$ 1,154,464</u>	<u>\$ (3,084,662)</u>	<u>\$ (501,613)</u>	<u>\$ 2,583,049</u>
	406,476			1,566,956	
	1,675,203			2,252,211	
	<u>\$ 2,538,452</u>			<u>\$ 3,317,554</u>	

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

GENERAL PLAN UPDATE			
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Funding from other governmental agencies			
Charges for current services		\$ 46,684	\$ 46,684
Investment income and rentals	\$ 10,502	10,906	404
Fines, forfeitures, and other revenues			
Total revenues	\$ 10,502	\$ 57,590	\$ 47,088
Expenditures:			
Current:			
General government	\$ 26,813	\$ 17,186	\$ 9,627
Police services			
Public works / development services	216,139	187,847	28,292
Capital outlay			
Debt service:			
Interest and fiscal charges			
Total expenditures	\$ 242,952	\$ 205,033	\$ 37,919
Excess (deficiency) of revenues over (under) expenditures	\$ (232,450)	\$ (147,443)	\$ 85,007
Other financing sources (uses):			
Operating transfers in	\$ 148,200	\$ 136,200	(12,000)
Operating transfers (out)	(4,520)	(4,520)	
Total other financing sources (uses)	\$ 143,680	\$ 131,680	\$ (12,000)
Net increase (decrease)	\$ (88,770)	\$ (15,763)	\$ 73,007
Adjustments to budgetary basis		54,645	
Fund balances - beginning of year		118,643	
Fund balances - end of year		\$ 157,525	

HOUSING BLOCK GRANT			MUSEUM RENTAL		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
\$ 166,478	\$ 274,597	\$ 108,119			
7,312	6,234	(1,078)	\$ 500	\$ 524	\$ 24
	120	120		-	-
<u>\$ 173,790</u>	<u>\$ 280,951</u>	<u>\$ 107,161</u>	<u>\$ 500</u>	<u>\$ 524</u>	<u>\$ 24</u>
	\$ 104,416	\$ (104,416)	\$ 2,480	\$ 1,937	\$ 543
\$ 231,478		231,478			
<u>\$ 231,478</u>	<u>\$ 104,416</u>	<u>\$ 127,062</u>	<u>\$ 2,480</u>	<u>\$ 1,937</u>	<u>\$ 543</u>
<u>\$ (57,688)</u>	<u>\$ 176,535</u>	<u>\$ 234,223</u>	<u>\$ (1,980)</u>	<u>\$ (1,413)</u>	<u>\$ 567</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (57,688)</u>	<u>\$ 176,535</u>	<u>\$ 234,223</u>	<u>\$ (1,980)</u>	<u>\$ (1,413)</u>	<u>\$ 567</u>
	412,966			7,842	
	<u>\$ 589,501</u>			<u>\$ 6,429</u>	

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	OES/FEMA		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Funding from other governmental agencies		\$ 3,912	\$ 3,912
Charges for current services			
Investment income and rentals		1,051	1,051
Fines, forfeitures, and other revenues			
Total revenues	\$ -	\$ 4,963	\$ 4,963
Expenditures:			
Current:			
General government			
Police services			
Public works / development services			
Capital outlay			
Debt service:			
Interest and fiscal charges			
Total expenditures	\$ -	\$ -	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 4,963	\$ 4,963
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)	\$ 1,812	(1,812)	(3,624)
Total other financing sources (uses)	\$ 1,812	\$ (1,812)	\$ (3,624)
Net increase (decrease)	\$ 1,812	\$ 3,151	\$ 1,339
Adjustments to budgetary basis			
Fund balances - beginning of year		5,270	
Fund balances - end of year		\$ 8,421	

ASSET SEIZURE			LIGHTING AND LANDSCAPE		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
			\$ 111,716	\$ 125,670	\$ 13,954
\$ 1,000		\$ (1,000)			
2,445	2,698	253	3,284	5,522	2,238
<u>\$ 3,445</u>	<u>\$ 2,698</u>	<u>\$ (747)</u>	<u>\$ 115,000</u>	<u>\$ 131,192</u>	<u>\$ 16,192</u>
	1,016	(1,016)	\$ 137,421	\$ 132,374	\$ 5,047
\$ 2,800		2,800			
3,641	\$ 1,036	\$ 2,605			
<u>\$ 6,441</u>	<u>\$ 2,052</u>	<u>\$ 4,389</u>	<u>\$ 137,421</u>	<u>\$ 132,374</u>	<u>\$ 5,047</u>
\$ (2,996)	\$ 646	\$ 3,642	\$ (22,421)	\$ (1,182)	\$ 21,239
			\$ 1,810	\$ (1,810)	(3,620)
\$ -	\$ -	\$ -	\$ 1,810	\$ (1,810)	\$ (3,620)
<u>\$ (2,996)</u>	<u>\$ 646</u>	<u>\$ 3,642</u>	<u>\$ (20,611)</u>	<u>\$ (2,992)</u>	<u>\$ 17,619</u>
				595	
	37,083			91,573	
	<u>\$ 37,729</u>			<u>\$ 89,176</u>	

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

ENVIRONMENTAL PROGRAMS			
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	\$ 225,000	\$ 316,878	\$ 91,878
Funding from other governmental agencies	9,518	9,518	
Charges for current services			
Investment income and rentals	4,074	14,610	10,536
Fines, forfeitures, and other revenues	35,000	44,859	9,859
Total revenues	\$ 273,592	\$ 385,865	\$ 112,273
Expenditures:			
Current:			
General government	\$ 298,163	\$ 276,197	\$ 21,966
Police services			
Public works / development services			
Capital outlay	1,200		1,200
Debt service:			
Interest and fiscal charges			
Total expenditures	\$ 299,363	\$ 276,197	\$ 23,166
Excess (deficiency) of revenues over (under) expenditures	\$ (25,771)	\$ 109,668	\$ 135,439
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)	\$ (3,620)	\$ (3,620)	
Total other financing sources (uses)	\$ (3,620)	\$ (3,620)	\$ -
Net increase (decrease)	\$ (29,391)	\$ 106,048	\$ 135,439
Adjustments to budgetary basis		39,916	
Fund balances - beginning of year		141,989	
Fund balances - end of year		\$ 287,953	

MOBILE HOME PARK STABILIZATION

HOUSING DEVELOPMENT FUND

Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
1,649	\$ 2,402	\$ 753	\$ 37,722	\$ 71,335	\$ 33,613
				35,000	35,000
\$ 1,649	\$ 2,402	\$ 753	\$ 37,722	\$ 106,335	\$ 68,613
\$ 59,899	\$ 33,334	\$ 26,565			
			\$ 1,265	\$ 1,265	
\$ 59,899	\$ 33,334	\$ 26,565	\$ 1,265	\$ 1,265	\$ -
\$ (58,250)	\$ (30,932)	\$ 27,318	\$ 36,457	\$ 105,070	\$ 68,613
\$ 50,000	\$ 50,000				
(450)	(450)		\$ (16,500)		16,500
\$ 49,550	\$ 49,550	\$ -	\$ (16,500)	\$ -	\$ 16,500
\$ (8,700)	\$ 18,618	\$ 27,318	\$ 19,957	\$ 105,070	\$ 85,113
	24,101			1,041,921	
	\$ 42,719			\$ 1,146,991	

(Continued)

City of Morgan Hill, California

Special Revenue Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	GOVERNMENT/PUBLIC ACCESS		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	\$ 32,000	\$ 39,764	\$ 7,764
Funding from other governmental agencies			
Charges for current services			
Investment income and rentals	5,920	2,089	(3,831)
Fines, forfeitures, and other revenues			
Total revenues	\$ 37,920	\$ 41,853	\$ 3,933
Expenditures:			
Current:			
General government	\$ 70,437	\$ 67,236	\$ 3,201
Police services			
Public works / development services			
Capital outlay	6,081	2,557	3,524
Debt service:			
Interest and fiscal charges			
Total expenditures	\$ 76,518	\$ 69,793	\$ 6,725
Excess (deficiency) of revenues over (under) expenditures	\$ (38,598)	\$ (27,940)	\$ 10,658
Other financing sources (uses):			
Operating transfers in	\$ 27,815	\$ 27,815	
Operating transfers (out)	(905)	(905)	
Total other financing sources (uses)	\$ 26,910	\$ 26,910	\$ -
Net increase (decrease)	\$ (11,688)	\$ (1,030)	\$ 10,658
Adjustments to budgetary basis		4,662	
Fund balances - beginning of year		35,949	
Fund balances - end of year		\$ 39,581	

COMMUNITY CENTER			TOTALS		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
			\$ 918,166	\$ 969,477	\$ 51,311
			1,422,260	4,482,073	3,059,813
			1,908,283	2,802,007	893,724
\$ 21,392	\$ 21,392		248,995	485,650	236,655
			65,000	90,793	25,793
<u>\$ 21,392</u>	<u>\$ 21,392</u>	<u>\$ -</u>	<u>\$ 4,562,704</u>	<u>\$ 8,830,000</u>	<u>\$ 4,267,296</u>
			\$ 595,213	\$ 633,696	\$ (38,483)
			2,800		2,800
			3,429,089	3,859,498	(430,409)
			12,343,882	9,223,934	3,119,948
			3,394		3,394
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,374,378</u>	<u>\$ 13,717,128</u>	<u>\$ 2,657,250</u>
\$ 21,392	\$ 21,392	\$ -	\$ (11,811,674)	\$ (4,887,128)	\$ 6,924,546
\$ 244,000	\$ 244,000		\$ 8,668,498	\$ 6,099,506	\$ (2,568,992)
			(669,607)	(503,243)	166,364
<u>\$ 244,000</u>	<u>\$ 244,000</u>	<u>\$ -</u>	<u>\$ 7,998,891</u>	<u>\$ 5,596,263</u>	<u>\$ (2,402,628)</u>
<u>\$ 265,392</u>	<u>\$ 265,392</u>	<u>\$ -</u>	<u>\$ (3,812,783)</u>	<u>\$ 709,135</u>	<u>\$ 4,521,918</u>
				2,073,250	
	260,054			6,904,518	
	<u>\$ 525,446</u>			<u>\$ 9,686,903</u>	

(Concluded)

City of Morgan Hill

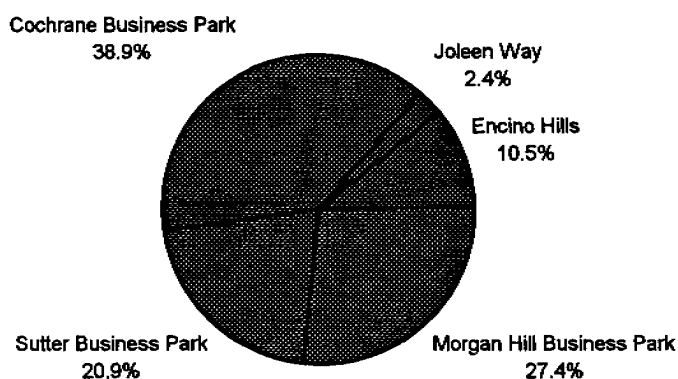
DEBT SERVICE FUNDS

Debt Service Funds account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

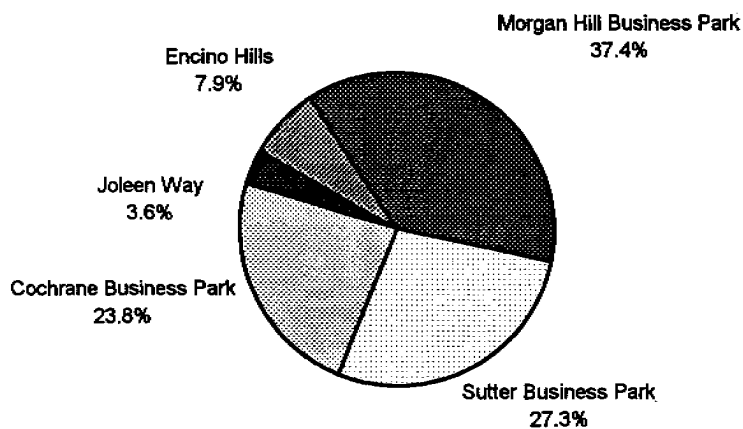
Special Assessment Districts Debt Service Funds

These funds are established to permit the City to sell bonds to provide the funds to construct improvements in new developments. Typically, these improvements are streets, curbs, gutters, sidewalks, water and sewer lines, undergrounding of utilities, and storm drains. The individual lots are assessed a proportionate share of the improvements, the County levies this assessment as part of the annual property tax bill. The County remits the collections to the City, and which in turn pays the debt service on the bonds. The City has some legal obligation for repayment of these bonds.

Reserved Fund Balance Distribution by Fund - Total \$1.4 million



Expenditure Distribution by Fund Category - Total \$.97 million



Note: The above balances include the amounts designated for debt service.

City of Morgan Hill, California

Debt Service Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

SPECIAL ASSESSMENT DISTRICTS			
	Hidden Creek	Dunne Condit	Encino Hills
Assets			
Restricted pooled cash and investments			\$ 145,323
Receivables:			
Taxes and special assessments			
Accrued interest			2,234
Total assets	\$ -	\$ -	\$ 147,557
Liabilities and Fund Balances			
Liabilities:			
Accounts payable			
Deferred revenue			
Total liabilities	\$ -	\$ -	\$ -
Fund balances:			
Reserved for:			
Debt Service			\$ 147,557
Total fund balances	\$ -	\$ -	\$ 147,557
Total liabilities and fund balances	\$ -	\$ -	\$ 147,557

SPECIAL ASSESSMENT DISTRICTS					
Morgan Hill Business Park	Sutter Business Park	Cochrane Business Park	Joleen Way	TOTALS	
				2001	2000
\$ 380,656	\$ 290,257	\$ 542,855	\$ 33,344	\$ 1,392,435	\$ 1,988,504
		1,725,000	160,694	1,885,694	2,716,632
5,698	4,488	6,691	257	19,368	22,930
<u>\$ 386,354</u>	<u>\$ 294,745</u>	<u>\$ 2,274,546</u>	<u>\$ 194,295</u>	<u>\$ 3,297,497</u>	<u>\$ 4,728,066</u>
					\$ 2,186
		1,725,000	\$ 160,694	\$ 1,885,694	2,716,632
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,725,000</u>	<u>\$ 160,694</u>	<u>\$ 1,885,694</u>	<u>\$ 2,718,818</u>
\$ 386,354	\$ 294,745	\$ 549,546	\$ 33,601	\$ 1,411,803	\$ 2,009,248
<u>\$ 386,354</u>	<u>\$ 294,745</u>	<u>\$ 549,546</u>	<u>\$ 33,601</u>	<u>\$ 1,411,803</u>	<u>\$ 2,009,248</u>
<u>\$ 386,354</u>	<u>\$ 294,745</u>	<u>\$ 2,274,546</u>	<u>\$ 194,295</u>	<u>\$ 3,297,497</u>	<u>\$ 4,728,066</u>

City of Morgan Hill, California

Debt Service Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	SPECIAL ASSESSMENT DISTRICTS		
	Hidden Creek	Dunne Condit	Encino Hills
Revenues:			
Property taxes and special assessments			
Investment income and rentals	\$ 2,388	\$ 941	\$ 12,036
Fines, forfeitures, and other revenues			
Total revenues	\$ 2,388	\$ 941	\$ 12,036
Expenditures:			
Debt service:			
Principal			\$ 65,000
Interest and fiscal charges			11,702
Total expenditures	\$ -	\$ -	\$ 76,702
Excess (deficiency) of revenues over (under) expenditures	\$ 2,388	\$ 941	\$ (64,666)
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)			
Total other financing sources (uses)	\$ -	\$ -	\$ -
Net increase (decrease)	\$ 2,388	\$ 941	\$ (64,666)
Fund balances - beginning of year	34,118	8,151	212,223
Equity transfer to special deposits fund	(36,506)	(9,092)	
Fund balances - end of year	\$ -	\$ -	\$ 147,557

SPECIAL ASSESSMENT DISTRICTS					
Morgan Hill Business Park	Sutter Business Park	Cochrane Business Park	Joleen Way	TOTALS	
				2001	2000
\$ 27,233	\$ 5,179	\$ 245,993	\$ 36,419	\$ 314,824	\$ 892,582
32,058	25,671	31,829	1,757	106,680	201,835
				-	75,760
<u>\$ 59,291</u>	<u>\$ 30,850</u>	<u>\$ 277,822</u>	<u>\$ 38,176</u>	<u>\$ 421,504</u>	<u>\$ 1,170,177</u>
\$ 315,000	\$ 230,000	\$ 90,000	\$ 15,000	\$ 715,000	\$ 6,950,000
48,992	35,982	141,489	20,186	258,351	703,909
<u>\$ 363,992</u>	<u>\$ 265,982</u>	<u>\$ 231,489</u>	<u>\$ 35,186</u>	<u>\$ 973,351</u>	<u>\$ 7,653,909</u>
\$ (304,701)	\$ (235,132)	\$ 46,333	\$ 2,990	\$ (551,847)	\$ (6,483,732)
					\$ 6,525,507
					(9,700)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,515,807</u>
\$ (304,701)	\$ (235,132)	\$ 46,333	\$ 2,990	\$ (551,847)	\$ 32,075
691,055	529,877	503,213	30,611	2,009,248	1,977,173
				(45,598)	
<u>\$ 386,354</u>	<u>\$ 294,745</u>	<u>\$ 549,546</u>	<u>\$ 33,601</u>	<u>\$ 1,411,803</u>	<u>\$ 2,009,248</u>

City of Morgan Hill, California

Debt Service Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	SPECIAL ASSESSMENT DISTRICTS		
	HIDDEN CREEK		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Investment income and rentals	\$ 1,386	\$ 2,388	\$ 1,002
Fines, forfeitures, and other revenues			
Total revenues	\$ 1,386	\$ 2,388	\$ 1,002
Expenditures:			
Debt service:			
Principal			
Interest and fiscal charges			
Total expenditures	\$ -	\$ -	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ 1,386	\$ 2,388	\$ 1,002
Net increase (decrease)	\$ 1,386	\$ 2,388	\$ 1,002
Fund balances - beginning of year		34,118	
Equity transfer to special deposits fund		(36,506)	
Fund balances - end of year		\$ -	

SPECIAL ASSESSMENT DISTRICTS						
DUNNE/CONDIT			ENCINO HILLS			
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance	
447	\$ 941	494	\$ 13,242	\$ 12,036	\$ (1,206)	
<u>\$ 447</u>	<u>\$ 941</u>	<u>\$ 494</u>	<u>\$ 13,242</u>	<u>\$ 12,036</u>	<u>\$ (1,206)</u>	
			\$ 100,000	\$ 65,000	35,000	
			17,485	11,702	\$ 5,783	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,485</u>	<u>\$ 76,702</u>	<u>\$ 40,783</u>	
\$ 447	\$ 941	\$ 494	\$ (104,243)	\$ (64,666)	\$ 39,577	
<u>\$ 447</u>	<u>\$ 941</u>	<u>\$ 494</u>	<u>\$ (104,243)</u>	<u>\$ (64,666)</u>	<u>\$ 39,577</u>	
	8,151			212,223		
	(9,092)					
	<u>\$ -</u>			<u>\$ 147,557</u>		

(Continued)

City of Morgan Hill, California

Debt Service Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances -

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

SPECIAL ASSESSMENT DISTRICTS			
MORGAN HILL BUSINESS PARK			
	Revised	Actual	
	Budget	Plus	Variance
		Encumbrances	
Revenues:			
Property taxes and special assessments	\$ 101,000	\$ 27,233	\$ (73,767)
Investment income and rentals	47,374	32,058	(15,316)
Fines, forfeitures, and other revenues			
Total revenues	\$ 148,374	\$ 59,291	\$ (89,083)
Expenditures:			
Debt service:			
Principal	\$ 315,000	\$ 315,000	
Interest and fiscal charges	49,235	48,992	\$ 243
Total expenditures	\$ 364,235	\$ 363,992	\$ 243
Excess (deficiency) of revenues over (under) expenditures	\$ (215,861)	\$ (304,701)	\$ (88,840)
Net increase (decrease)	\$ (215,861)	\$ (304,701)	\$ (88,840)
Fund balances - beginning of year		691,055	
Equity transfer to special deposits fund			
Fund balances - end of year		\$ 386,354	

SPECIAL ASSESSMENT DISTRICTS					
SUTTER BUSINESS PARK			COCHRANE BUSINESS PARK		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
	\$ 5,179	\$ 5,179	\$ 232,000	\$ 245,993	\$ 13,993
\$ 23,526	25,671	2,145	20,515	31,829	11,314
<u>\$ 23,526</u>	<u>\$ 30,850</u>	<u>\$ 7,324</u>	<u>\$ 252,515</u>	<u>\$ 277,822</u>	<u>\$ 25,307</u>
\$ 230,000	\$ 230,000		\$ 90,000	\$ 90,000	
36,251	35,982	\$ 269	141,938	141,489	\$ 449
<u>\$ 266,251</u>	<u>\$ 265,982</u>	<u>\$ 269</u>	<u>\$ 231,938</u>	<u>\$ 231,489</u>	<u>\$ 449</u>
\$ (242,725)	\$ (235,132)	\$ 7,593	\$ 20,577	\$ 46,333	\$ 25,756
<u>\$ (242,725)</u>	<u>\$ (235,132)</u>	<u>\$ 7,593</u>	<u>\$ 20,577</u>	<u>\$ 46,333</u>	<u>\$ 25,756</u>
	529,877			503,213	
	<u>\$ 294,745</u>			<u>\$ 549,546</u>	

(Continued)

City of Morgan Hill, California

Debt Service Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	JOLEEN WAY		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	\$ 36,000	\$ 36,419	\$ 419
Investment income and rentals	1,574	1,757	183
Fines, forfeitures, and other revenues			
Total revenues	\$ 37,574	\$ 38,176	\$ 602
Expenditures:			
Debt service:			
Principal	\$ 1,500	\$ 15,000	(13,500)
Interest and fiscal charges	33,967	20,186	13,781
Total expenditures	\$ 35,467	\$ 35,186	\$ 281
Excess (deficiency) of revenues over (under) expenditures	\$ 2,107	\$ 2,990	\$ 883
Net increase (decrease)	\$ 2,107	\$ 2,990	\$ 883
Fund balances - beginning of year		30,611	
Equity transfer to special deposits fund			
Fund balances - end of year		\$ 33,601	

TOTALS		
Revised Budget	Budgetary Basis Actual	Variance
\$ 369,000	\$ 314,824	\$ (54,176)
108,064	106,680	(1,384)
\$ 477,064	\$ 421,504	\$ (55,560)
 \$ 736,500	 \$ 715,000	 \$ 21,500
278,876	258,351	20,525
\$ 1,015,376	\$ 973,351	\$ 42,025
 \$ (538,312)	 \$ (551,847)	 \$ (13,535)
\$ (538,312)	\$ (551,847)	\$ (13,535)
	2,009,248	
	(45,598)	
	1,411,803	
	(Concluded)	

City of Morgan Hill

CAPITAL PROJECT FUNDS

Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary and Special Revenue Funds.

Park Capital Improvement

This fund receives revenues from developers of properties and the funds may only be used for the design, development, maintenance and construction of new parks within the City.

Park Maintenance

This fund receives revenues from developers of properties and the funds may be used for the maintenance of the City's parks and for purchase of land for open space.

Storm Drains

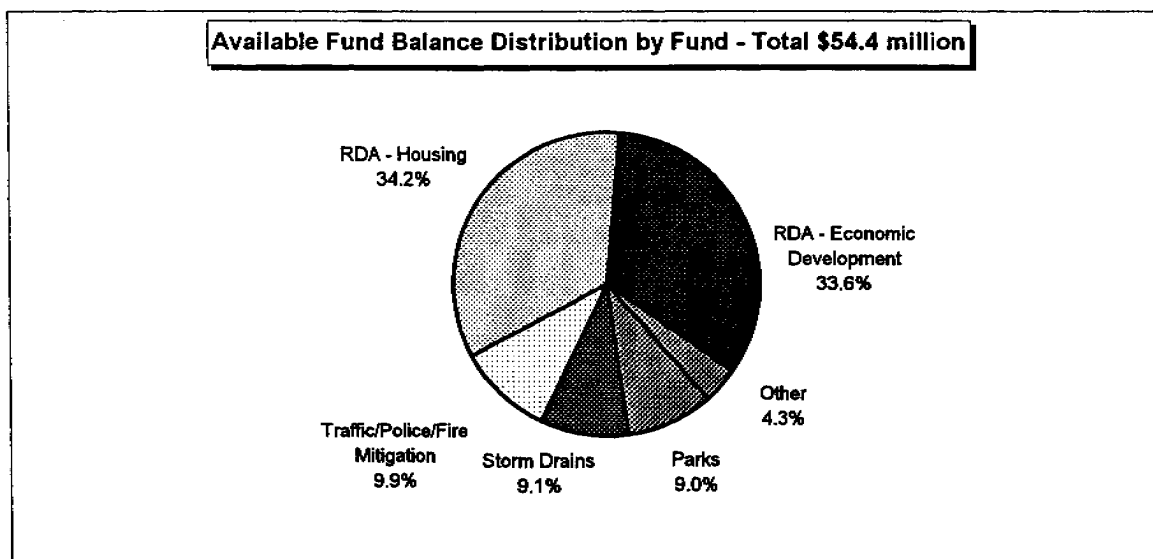
This fund receives revenues from developers of properties, and the funds may only be used for the design and construction of new storm drains.

Off Street Parking

This fund accumulates revenue from charges to developers within the downtown core area to help meet future parking requirements.

Traffic Mitigation

This fund receives revenues from developers when their projects have an adverse impact on traffic flows, etc. The funds collected may be expended on new streets, traffic signals and improvements of existing streets where they are impacted by new development.



Note: The above balances include the undesignated portion of fund balance and the amounts reserved or designated for the following: Housing, Economic Development and Capital Expansion Projects.

City of Morgan Hill

CAPITAL PROJECT FUNDS (Continued)

Police, Fire and Library Mitigation

These funds' revenues are derived from a fee charged to developers to cover the costs required for police, fire and library capital expansion projects to assist in providing service to new developments.

Public Facilities

This fund has no established source of revenue. Funds are transferred into this fund from the General Fund or other funds as they become available for capital projects which may not be funded by the other capital funds. Typical projects are sidewalk repair and replacement.

Undergrounding

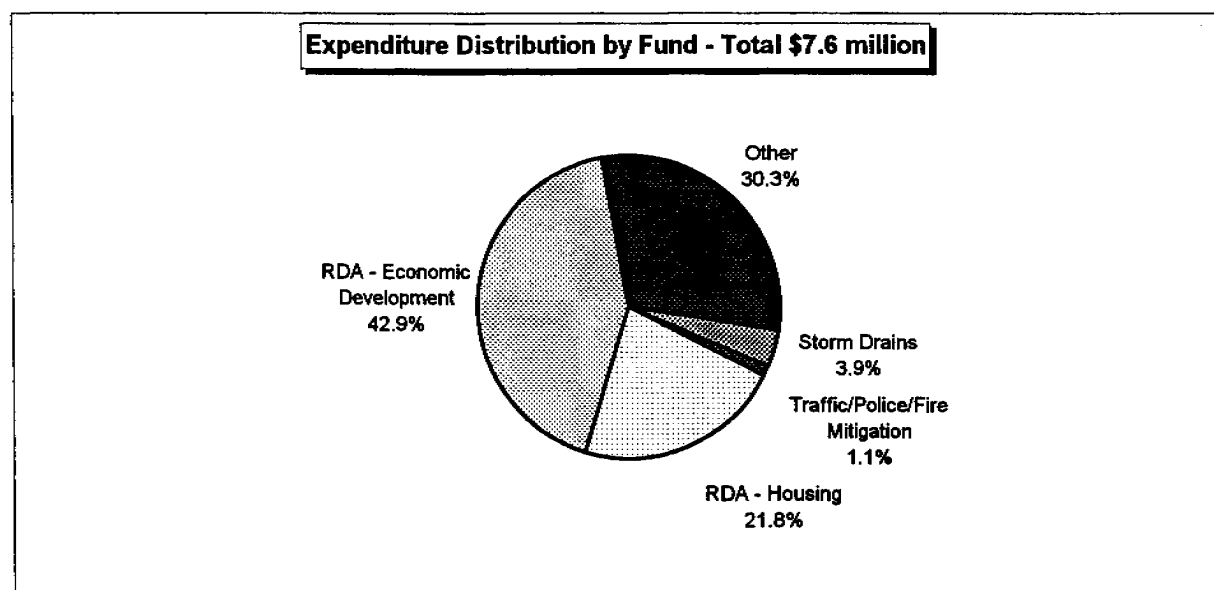
This fund receives revenues from developers for the undergrounding of utilities in areas of new development. Expenditures may be made only for the costs of design and construction associated with undergrounding.

Redevelopment Agency

This fund receives revenue from the increase in property taxes as a result of development within the area of the Agency. The Health and Safety Code requires that 20% of the increase in property taxes be set aside to be used exclusively for housing. Expenditures are to be used to pay for (a) the development of low and moderate income housing within the area as noted above, (b) the administration of the Agency, and (c) development projects within the project area and the design and service payments related to those projects.

Morgan Hill Business Ranch

This fund accounts for costs incurred in the design and construction of streets in this assessment district.



City of Morgan Hill, California

Capital Project Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

	Park Capital Improvement	Park Maintenance	Storm Drains	Off Street Parking
Assets				
Pooled cash and investments		\$ 2,508,953	\$ 2,514,065	\$ 3,686
Restricted pooled cash and investments	\$ 2,552,531		2,230,508	
Receivables:				
Accrued interest	39,980	38,238	73,835	56
Other accounts receivable			180,000	
Prepaid Expenses				
Advance to other funds				
Investment in properties held for resale				
Notes receivable				
Loans receivable				
Total assets	\$2,592,511	\$ 2,547,191	\$ 4,998,408	\$ 3,742
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 118		\$ 1,675	
Accrued liabilities				
Deferred revenue				
Vacation and compensated absence obligation				
Total liabilities	\$ 118	\$ -	\$ 1,675	\$ -
Fund balances:				
Reserved for:				
Advance to other funds				
Encumbrances	\$ 226,681		\$ 65,196	
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Capital expansion projects	2,365,712		2,265,039	
Unreserved:				
Designated for economic development				
Undesignated		\$ 2,547,191	2,666,498	\$ 3,742
Total fund balances	\$ 2,592,393	\$ 2,547,191	\$ 4,996,733	\$ 3,742
Total liabilities and fund balances	\$ 2,592,511	\$ 2,547,191	\$ 4,998,408	\$ 3,742

<u>Traffic Mitigation</u>	<u>Police Mitigation</u>	<u>Fire Mitigation</u>	<u>Public Facilities</u>	<u>Library</u>	<u>Under Grounding</u>
\$ 1,861,242	\$ 1,098,244	\$ 2,348,809	\$ 751,368 1,660,939	\$ 326,373	\$ 1,020,992
51,428 6,367	16,689 4,499	35,377	17,760 36,670	4,999	14,770
3,544					
<u>\$ 1,922,581</u>	<u>\$ 1,119,432</u>	<u>\$ 2,384,186</u>	<u>\$ 2,466,737</u>	<u>\$ 331,372</u>	<u>\$ 1,035,762</u>
			\$ 58,790		
\$ 3,558					
<u>\$ 3,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,790</u>	<u>\$ -</u>	<u>\$ -</u>
		\$ 50,000	\$ 1,545,796		3,679
1,919,023	1,119,432	2,334,186	101,145	\$ 331,372	
			761,006		\$ 1,032,083
<u>\$ 1,919,023</u>	<u>\$ 1,119,432</u>	<u>\$ 2,384,186</u>	<u>\$ 2,407,947</u>	<u>\$ 331,372</u>	<u>\$ 1,035,762</u>
<u>\$ 1,922,581</u>	<u>\$ 1,119,432</u>	<u>\$ 2,384,186</u>	<u>\$ 2,466,737</u>	<u>\$ 331,372</u>	<u>\$ 1,035,762</u>

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

	Redevel- opment Agency	Morgan Hill Business Ranch	TOTALS	
			2001	2000
Assets				
Pooled cash and investments	\$ 27,716,840	\$ 93,939	\$ 34,609,843	\$ 36,003,312
Restricted pooled cash and investments			12,078,646	3,087,191
Receivables:				
Accrued interest	345,947	1,441	640,520	553,116
Other accounts receivable	147,392		333,759	346,484
Prepaid Expenses			41,169	
Advance to other funds	128,593		128,593	691,755
Investment in properties held for resale	71,049		71,049	71,049
Notes receivable			3,544	5,678
Loans receivable	19,318,270		19,318,270	14,129,600
	<u>\$ 47,728,091</u>	<u>\$ 95,380</u>	<u>\$ 67,225,393</u>	<u>\$ 54,888,185</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 432,224		\$ 492,807	\$ 232,527
Accrued liabilities	18,815		18,815	16,999
Deferred revenue	5,294,063		5,297,621	5,009,557
Vacation and compensated absence obligation	5,474		5,474	5,023
	<u>\$ 5,750,576</u>	<u>\$ -</u>	<u>\$ 5,814,717</u>	<u>\$ 5,264,106</u>
Fund balances:				
Reserved for:				
Advance to other funds	\$ 128,593		\$ 128,593	691,755
Encumbrances	3,342,232		5,233,584	\$ 3,670,583
Low and moderate income housing	18,583,334		18,583,334	6,742,360
Noncurrent loans and notes receivable	1,591,928		1,591,928	9,125,721
Properties held for resale	71,049		71,049	71,049
Capital expansion projects			10,435,909	7,826,263
Unreserved:				
Designated for economic development	18,260,379		18,260,379	14,445,935
Undesignated		\$ 95,380	7,105,900	7,050,413
Total fund balances	<u>\$ 41,977,515</u>	<u>\$ 95,380</u>	<u>\$ 61,410,676</u>	<u>\$ 49,624,079</u>
Total liabilities and fund balances	<u>\$ 47,728,091</u>	<u>\$ 95,380</u>	<u>\$ 67,225,393</u>	<u>\$ 54,888,185</u>

(Concluded)

City of Morgan, California

Capital Project Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Park Capital Improvement	Park Maintenance	Storm Drains	Off Street Parking
Revenues:				
Property taxes and special assessments				
Charges for current services	\$ 250,507	\$ 128,887	\$ 874,135	
Investment income and rentals	170,118	177,156	334,017	\$ 252
Fines, forfeitures, and other revenues	200		53,000	
Total revenues	\$ 420,825	\$ 306,043	\$ 1,261,152	\$ 252
Expenditures:				
Current:				
General government				
Capital outlay	\$ 492,780		\$ 293,546	
Total expenditures	\$ 492,780	\$ -	\$ 293,546	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ (71,955)	\$ 306,043	\$ 967,606	\$ 252
Other financing sources (uses):				
Operating transfers in	\$ 199,775		\$ 132,000	
Operating transfers (out)	(22,143)	(100,000)	(137,643)	
Total other financing sources (uses)	\$ 177,632	\$ (100,000)	\$ (5,643)	\$ -
Net increase	\$ 105,677	\$ 206,043	\$ 961,963	\$ 252
 Fund balances - beginning of year	 2,486,716	 2,341,148	 4,034,770	 3,490
Fund balances - end of year	\$ 2,592,393	\$ 2,547,191	\$ 4,996,733	\$ 3,742

(Continued)

City of Morgan, California

Capital Project Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Traffic Mitigation	Police Mitigation	Fire Mitigation	Public Facilities
Revenues:				
Property taxes and special assessments				
Charges for current services	\$ 2,217,932	\$ 194,834	\$ 367,248	\$ 369,213
Investment income and rentals	192,451	70,871	146,313	98,599
Fines, forfeitures, and other revenues	1,608			57,537
Total revenues	\$ 2,411,991	\$ 265,705	\$ 513,561	\$ 525,349
Expenditures:				
Current:				
General government		\$ 19,918		
Capital outlay	\$ 62,552	1,678		\$ 1,746,486
Total expenditures	\$ 62,552	\$ 21,596	\$ -	\$ 1,746,486
Excess (deficiency) of revenues over (under) expenditures	\$ 2,349,439	\$ 244,109	\$ 513,561	\$ (1,221,137)
Other financing sources (uses):				
Operating transfers in				\$ 1,735,751
Operating transfers (out)	\$ (973,815)	\$ (5,643)	(5,643)	(5,643)
Total other financing sources (uses)	\$ (973,815)	\$ (5,643)	\$ (5,643)	\$ 1,730,108
Net increase	\$ 1,375,624	\$ 238,466	\$ 507,918	\$ 508,971
 Fund balances - beginning of year	 543,399	 880,966	 1,876,268	 1,898,976
Fund balances - end of year	\$ 1,919,023	\$ 1,119,432	\$ 2,384,186	\$ 2,407,947

Library Mitigation	Under Grounding	Redevel- opment Agency	Morgan Hill Business Ranch	TOTALS	
				2001	2000
		\$ 15,299,316		\$ 15,299,316	\$ 14,076,996
\$ 37,844	\$ 240,858			4,681,458	3,120,626
20,634	61,940	2,049,518	\$ 6,263	3,328,132	2,272,701
		1,289,564		1,401,909	397,534
<u>\$ 58,478</u>	<u>\$ 302,798</u>	<u>\$ 18,638,398</u>	<u>\$ 6,263</u>	<u>\$ 24,710,815</u>	<u>\$ 19,867,857</u>
		\$ 1,805,951		\$ 1,825,869	\$ 1,535,759
	61,833	3,101,269		5,760,144	4,288,419
<u>\$ -</u>	<u>\$ 61,833</u>	<u>\$ 4,907,220</u>	<u>\$ -</u>	<u>\$ 7,586,013</u>	<u>\$ 5,824,178</u>
\$ 58,478	\$ 240,965	\$ 13,731,178	\$ 6,263	\$ 17,124,802	\$ 14,043,679
(5,642)		\$ (6,149,559)		\$ 2,067,526	\$ 3,982,228
				(7,405,731)	(13,068,061)
<u>\$ (5,642)</u>	<u>\$ -</u>	<u>\$ (6,149,559)</u>	<u>\$ -</u>	<u>\$ (5,338,205)</u>	<u>\$ (9,085,833)</u>
\$ 52,836	\$ 240,965	\$ 7,581,619	\$ 6,263	\$ 11,786,597	\$ 4,957,846
278,536	794,797	34,395,896	89,117	49,624,079	44,666,233
<u>\$ 331,372</u>	<u>\$ 1,035,762</u>	<u>\$ 41,977,515</u>	<u>\$ 95,380</u>	<u>\$ 61,410,676</u>	<u>\$ 49,624,079</u>

(concluded)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances -

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	PARK CAPITAL IMPROVEMENT		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Charges for current services	\$ 600,000	\$ 250,507	\$ (349,493)
Investment income and rentals	128,328	170,118	41,790
Fines, forfeitures, and other revenues		200	200
Total revenues	\$ 728,328	\$ 420,825	\$ (307,503)
Expenditures:			
General government			
Capital outlay	\$ 7,117,105	\$ 719,461	\$ 6,397,644
Total expenditures	\$ 7,117,105	\$ 719,461	\$ 6,397,644
Excess (deficiency) of revenues over (under) expenditures	\$ (6,388,777)	\$ (298,636)	\$ 6,090,141
Other financing sources (uses):			
Operating transfers in	\$ 6,597,480	\$ 199,775	\$ (6,397,705)
Operating transfers (out)	(34,143)	(22,143)	12,000
Total other financing sources (uses)	\$ 6,563,337	\$ 177,632	\$ (6,385,705)
Net increase (decrease)	\$ 174,560	\$ (121,004)	\$ (295,564)
Adjustments to budgetary basis		226,681	
Fund balances - beginning of year		2,486,716	
Fund balances - end of year		\$ 2,592,393	

PARK MAINTENANCE			STORM DRAINS		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
\$ 30,000	\$ 128,887	\$ 98,887	\$ 373,000	\$ 874,135	\$ 501,135
106,828	177,156	70,328	343,827	334,017	(9,810)
			10,000	53,000	43,000
<u>\$ 136,828</u>	<u>\$ 306,043</u>	<u>\$ 169,215</u>	<u>\$ 726,827</u>	<u>\$ 1,261,152</u>	<u>\$ 534,325</u>
\$ 185		\$ 185	\$ 375,000	\$ 358,742	\$ 16,258
<u>\$ 185</u>	<u>\$ -</u>	<u>\$ 185</u>	<u>\$ 375,000</u>	<u>\$ 358,742</u>	<u>\$ 16,258</u>
\$ 136,643	\$ 306,043	\$ 169,400	\$ 351,827	\$ 902,410	\$ 550,583
\$ (100,000)	\$ (100,000)		\$ 347,000	\$ 132,000	\$ (215,000)
			(137,643)	(137,643)	
<u>\$ (100,000)</u>	<u>\$ (100,000)</u>	<u>\$ -</u>	<u>\$ 209,357</u>	<u>\$ (5,643)</u>	<u>\$ (215,000)</u>
<u>\$ 36,643</u>	<u>\$ 206,043</u>	<u>\$ 169,400</u>	<u>\$ 561,184</u>	<u>\$ 896,767</u>	<u>\$ 335,583</u>
			65,196		
			<u>4,034,770</u>		
			<u>\$ 4,996,733</u>		

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	OFF-STREET PARKING		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Charges for current services			
Investment income and rentals	\$ 183	\$ 252	\$ 69
Fines, forfeitures, and other revenues			
Total revenues	\$ 183	\$ 252	\$ 69
Expenditures:			
General government			
Capital outlay			
Total expenditures	\$ -	\$ -	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ 183	\$ 252	\$ 69
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)			
Total other financing sources (uses)	\$ -	\$ -	\$ -
Net increase (decrease)	\$ 183	\$ 252	\$ 69
Adjustments to budgetary basis		-	
Fund balances - beginning of year		3,490	
Fund balances - end of year		\$ 3,742	

TRAFFIC MITIGATION			POLICE MITIGATION		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
\$ 700,000	\$ 2,217,932	\$ 1,517,932		\$ 194,834	\$ 194,834
152,168	192,451	40,283	\$ 50,347	70,871	20,524
	1,608	1,608			
<u>\$ 852,168</u>	<u>\$ 2,411,991</u>	<u>\$ 1,559,823</u>	<u>\$ 50,347</u>	<u>\$ 265,705</u>	<u>\$ 215,358</u>
\$ 201,275	\$ 62,552	\$ 138,723	\$ 19,690	\$ 19,918	\$ (228)
			2,658	1,678	980
<u>\$ 201,275</u>	<u>\$ 62,552</u>	<u>\$ 138,723</u>	<u>\$ 22,348</u>	<u>\$ 21,596</u>	<u>\$ 752</u>
\$ 650,893	\$ 2,349,439	\$ 1,698,546	\$ 27,999	\$ 244,109	\$ 216,110
\$ (1,050,643)	\$ (973,815)	76,828	\$ (430,643)	\$ (5,643)	425,000
\$ (1,050,643)	\$ (973,815)	\$ 76,828	\$ (430,643)	\$ (5,643)	\$ 425,000
<u>\$ (399,750)</u>	<u>\$ 1,375,624</u>	<u>\$ 1,775,374</u>	<u>\$ (402,644)</u>	<u>\$ 238,466</u>	<u>\$ 641,110</u>
	543,399			880,966	
	<u>\$ 1,919,023</u>			<u>\$ 1,119,432</u>	

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances -

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	FIRE MITIGATION		
	Revised	Actual	
	Budget	Plus	Variance
		Encumbrances	
Revenues:			
Property taxes and special assessments			
Charges for current services		\$ 367,248	\$ 367,248
Investment income and rentals	\$ 89,273	146,313	57,040
Fines, forfeitures, and other revenues			
Total revenues	\$ 89,273	\$ 513,561	\$ 424,288
Expenditures:			
General government			
Capital outlay	\$ 67,500	\$ 50,000	\$ 17,500
Total expenditures	\$ 67,500	\$ 50,000	\$ 17,500
Excess (deficiency) of revenues over (under) expenditures	\$ 21,773	\$ 463,561	\$ 441,788
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)	\$ (5,643)	\$ (5,643)	
Total other financing sources (uses)	\$ (5,643)	\$ (5,643)	\$ -
Net increase (decrease)	\$ 16,130	\$ 457,918	\$ 441,788
Adjustments to budgetary basis		50,000	
Fund balances - beginning of year		1,876,268	
Fund balances - end of year		\$ 2,384,186	

PUBLIC FACILITIES			LIBRARY MITIGATION		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
\$ 110,000	\$ 369,213	\$ 259,213	\$ 50,000	\$ 37,844	\$ (12,156)
45,057	98,599	53,542	11,762	20,634	8,872
100,000	57,537	(42,463)	600,000		(600,000)
<u>\$ 255,057</u>	<u>\$ 525,349</u>	<u>\$ 270,292</u>	<u>\$ 661,762</u>	<u>\$ 58,478</u>	<u>\$ (603,284)</u>
\$ 18,828,486	\$ 3,292,282	\$ 15,536,204			
<u>\$ 18,828,486</u>	<u>\$ 3,292,282</u>	<u>\$ 15,536,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ (18,573,429)	\$ (2,766,933)	\$ 15,806,496	\$ 661,762	\$ 58,478	\$ (603,284)
\$ 17,561,437	\$ 1,735,751	\$ (15,825,686)			
(5,643)	(5,643)		(905,642)	(5,642)	900,000
<u>\$ 17,555,794</u>	<u>\$ 1,730,108</u>	<u>\$ (15,825,686)</u>	<u>\$ (905,642)</u>	<u>\$ (5,642)</u>	<u>\$ 900,000</u>
<u>\$ (1,017,635)</u>	<u>\$ (1,036,825)</u>	<u>\$ (19,190)</u>	<u>\$ (243,880)</u>	<u>\$ 52,836</u>	<u>\$ 296,716</u>
	1,545,796				
	1,898,976			278,536	
	<u>\$ 2,407,947</u>			<u>\$ 331,372</u>	

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances -

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	UNDERGROUNDING		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments			
Charges for current services	\$ 30,000	\$ 240,858	\$ 210,858
Investment income and rentals	41,571	61,940	20,369
Fines, forfeitures, and other revenues			
Total revenues	\$ 71,571	\$ 302,798	\$ 231,227
Expenditures:			
General government			
Capital outlay	\$ 65,512	65,512	
Total expenditures	\$ 65,512	\$ 65,512	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ 6,059	\$ 237,286	\$ 231,227
Other financing sources (uses):			
Operating transfers in			
Operating transfers (out)	\$ (600,000)		\$ 600,000
Total other financing sources (uses)	\$ (600,000)	\$ -	\$ 600,000
Net increase (decrease)	\$ (593,941)	\$ 237,286	\$ 831,227
Adjustments to budgetary basis		3,679	
Fund balances - beginning of year		794,797	
Fund balances - end of year		\$ 1,035,762	

REDEVELOPMENT AGENCY			MORGAN HILL BUSINESS RANCH		
Revised Budget	Actual Plus Encumbrances	Variance	Revised Budget	Actual Plus Encumbrances	Variance
\$ 13,821,000	\$ 15,299,316	\$ 1,478,316			
1,062,252	2,049,518	987,266	\$ 4,663	\$ 6,263	\$ 1,600
50,000	1,289,564	1,239,564			
<u>\$ 14,933,252</u>	<u>\$ 18,638,398</u>	<u>\$ 3,705,146</u>	<u>\$ 4,663</u>	<u>\$ 6,263</u>	<u>\$ 1,600</u>
\$ 1,821,798	\$ 1,965,510	\$ (143,712)			
31,139,757	6,283,942	24,855,815			
<u>\$ 32,961,555</u>	<u>\$ 8,249,452</u>	<u>\$ 24,712,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ (18,028,303)	\$ 10,388,946	\$ 28,417,249	\$ 4,663	\$ 6,263	\$ 1,600
\$ (29,460,487)	\$ (6,149,559)	\$ 23,310,928			
\$ (29,460,487)	\$ (6,149,559)	\$ 23,310,928	\$ -	\$ -	\$ -
<u>\$ (47,488,790)</u>	<u>\$ 4,239,387</u>	<u>\$ 51,728,177</u>	<u>\$ 4,663</u>	<u>\$ 6,263</u>	<u>\$ 1,600</u>
	3,342,232				
	34,395,896			89,117	
	<u>\$ 41,977,515</u>			<u>\$ 95,380</u>	

(Continued)

City of Morgan Hill, California

Capital Project Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances -

Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2001

	TOTALS		
	Revised Budget	Actual Plus Encumbrances	Variance
Revenues:			
Property taxes and special assessments	\$ 13,821,000	\$ 15,299,316	\$ 1,478,316
Charges for current services	1,893,000	4,681,458	2,788,458
Investment income and rentals	2,036,259	3,328,132	1,291,873
Fines, forfeitures, and other revenues	760,000	1,401,909	641,909
Total revenues	\$ 18,510,259	\$ 24,710,815	\$ 6,200,556
Expenditures:			
General government	\$ 1,841,488	\$ 1,985,428	\$ (143,940)
Capital outlay	57,797,478	10,834,169	46,963,309
Total expenditures	\$ 59,638,966	\$ 12,819,597	\$ 46,819,369
Excess (deficiency) of revenues over (under) expenditures	\$ (41,128,707)	\$ 11,891,218	\$ 53,019,925
Other financing sources (uses):			
Operating transfers in	\$ 24,505,917	\$ 2,067,526	\$ (22,438,391)
Operating transfers (out)	(32,730,487)	(7,405,731)	25,324,756
Total other financing sources (uses)	\$ (8,224,570)	\$ (5,338,205)	\$ 2,886,365
Net increase (decrease)	\$ (49,353,277)	\$ 6,553,013	\$ 55,906,290
Adjustments to budgetary basis		5,233,584	
Fund balances - beginning of year		49,624,079	
Fund balances - end of year		\$ 61,410,676	

(Concluded)

City of Morgan Hill

ENTERPRISE FUNDS

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be recovered through user charges.

Sewer and Water Operations & Capital Projects

These funds receive revenue based on the sale of water and sewer usage. These revenues support the operation of the sewer and water systems including routine maintenance, depreciation, debt service and capital expenses associated with the two systems.

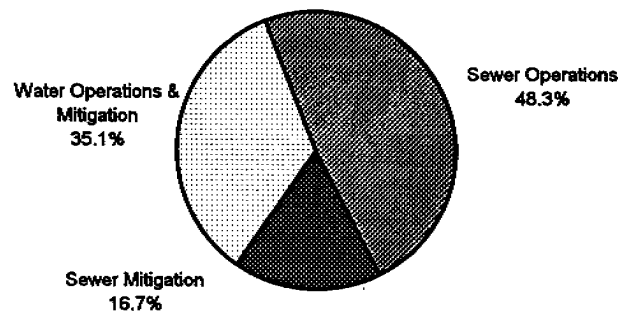
Sewer and Water Mitigation

These funds' revenues are derived from a fee charged to developers to cover the costs required for construction of sewer and water facilities or other related expansion projects to assist in providing service to new developments.

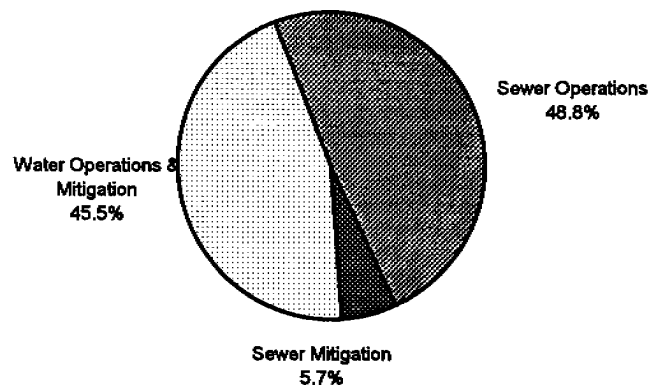
Financing Corporation

This fund represents the activities of the Morgan Hill Waste Water Facilities Financing Corporation, which accounts for the transactions related to repayment of the 1999 Water Certificates of Participation. The annual principal and interest payments are funded through charges made to the Water Fund.

Available Working Capital by Fund - Total \$29.2 million



Expense Distribution by Fund - Total \$11.8 million



City of Morgan Hill, California

Enterprise Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

	Sewer Operations	Sewer Mitigation	Financing Corporation
Assets			
Current assets:			
Pooled cash and investments	\$ 11,893,044		
Restricted pooled cash and investments	65,000	\$4,955,506	
Cash with fiscal agents	2,412,489		
Receivables:			
Accrued interest	166,205	85,208	
Other accounts receivable	623,305	5,738	
Current portion of notes receivable		21,693	
Current portion of investment in lease			\$ 155,000
Total current assets	\$ 15,160,043	\$ 5,068,145	\$ 155,000
Fixed assets, net	\$ 18,022,675	\$ 1,113,458	
Long term note receivable		87,520	
Sewer capacity rights	22,290,776		
Long term investment in lease			\$ 4,002,108
Total assets	\$ 55,473,494	\$ 6,269,123	\$ 4,157,108
Liabilities and Fund Equity			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 28,909		
Accrued liabilities	395,807	209,834	
Customer and other deposits			
Current obligations for:			
Lease obligation			\$ 155,000
Bonds payable	52,858		
Capacity rights payable	600,000		
Compensated absences	3,749		
Total current liabilities	\$ 1,081,323	\$ 209,834	\$ 155,000
Long term obligations for:			
Lease obligation			\$ 4,002,108
Bonds payable			
Compensated absences	20,073		
Capacity rights payable	23,218,840		
Total liabilities	\$ 24,320,236	\$ 209,834	\$ 4,157,108
Fund Equity:			
Contributed capital	\$ 7,624,084		
Retained Earnings			
Reserved for Capital Expansion		\$ 6,059,289	
Unreserved	23,529,174		
Total fund equity	\$ 31,153,258	\$ 6,059,289	\$ -
Total liabilities and fund equity	\$ 55,473,494	\$ 6,269,123	\$ 4,157,108

Water Operations	Water Mitigation	Eliminations	TOTALS	
			2001	2000
\$ 7,749,902			\$ 19,642,946	\$ 22,537,448
	\$1,463,772		6,484,278	1,136,871
392,791			2,805,280	2,631,585
128,365	24,280		404,058	364,965
1,097,765			1,726,808	1,485,060
			21,693	16,433
		\$ (155,000)		
<u>\$ 9,368,823</u>	<u>\$ 1,488,052</u>	<u>\$ (155,000)</u>	<u>\$ 31,085,063</u>	<u>\$ 28,172,362</u>
\$ 28,147,884	\$ 1,278,357		\$ 48,562,374	\$ 47,126,489
			87,520	1,718
			22,290,776	23,235,693
		\$ (4,002,108)		
<u>\$ 37,516,707</u>	<u>\$ 2,766,409</u>	<u>\$ (4,157,108)</u>	<u>\$ 102,025,733</u>	<u>\$ 98,536,262</u>
\$ 301,097			\$ 330,006	\$ 328,314
50,097			655,738	666,730
46,939			46,939	53,571
		\$ (155,000)		
210,320			263,178	256,579
			600,000	570,000
9,189			12,938	9,449
<u>\$ 617,642</u>	<u>\$ -</u>	<u>\$ (155,000)</u>	<u>\$ 1,908,799</u>	<u>\$ 1,884,643</u>
		\$ (4,002,108)		
\$ 5,129,781			\$ 5,129,781	\$ 5,331,997
58,034			78,107	58,043
			23,218,840	23,740,124
<u>\$ 5,805,457</u>	<u>\$ -</u>	<u>\$ (4,157,108)</u>	<u>\$ 30,335,527</u>	<u>\$ 31,014,807</u>
\$ 14,438,595			\$ 22,062,679	\$ 23,227,202
	\$ 2,766,409		8,825,698	8,822,253
17,272,655			40,801,829	35,472,000
<u>\$ 31,711,250</u>	<u>\$ 2,766,409</u>	<u>\$ -</u>	<u>\$ 71,690,206</u>	<u>\$ 67,521,455</u>
<u>\$ 37,516,707</u>	<u>\$ 2,766,409</u>	<u>\$ (4,157,108)</u>	<u>\$ 102,025,733</u>	<u>\$ 98,536,262</u>

City of Morgan Hill, California

Enterprise Funds

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Sewer Operations	Sewer Mitigation	Financing Corporation
Operating revenues:			
Charges for current services	\$ 5,876,873	\$ 2,360,388	
Interest and rentals			\$ 256,135
Total operating revenues	\$ 5,876,873	\$ 2,360,388	\$ 256,135
Operating expenses:			
Salaries and benefits	\$ 692,414		
Utilities and taxes	15,968		
Operations and maintenance	2,274,267	99,401	
Depreciation	561,251	\$ 98,518	
Amortization of sewer capacity rights	944,917		
Administrative charges	227,478		
Total operating expenses	\$ 4,716,295	\$ 197,919	\$ -
Operating income	\$ 1,160,578	\$ 2,162,469	\$ 256,135
Nonoperating revenue (expense):			
Investment income	\$ 973,231	\$ 385,879	
Interest (expense)	(1,054,633)	(471,041)	\$ (256,135)
Total nonoperating revenue (expense)	\$ (81,402)	\$ (85,162)	\$ (256,135)
Income before operating transfers	\$ 1,079,176	\$ 2,077,307	\$ -
Operating transfers in	\$ 3,257,570		
Operating transfers (out)	(1,664,721)	\$ (2,143,405)	
Net income (loss)	\$ 2,672,025	\$ (66,098)	\$ -
Charge to contributed capital for depreciation on fixed assets acquired with contributions	468,800		
Retained earnings - beginning of year	20,388,349	6,125,387	
Retained earnings - end of year	\$ 23,529,174	\$ 6,059,289	\$ -

Water Operations	Water Mitigation	Eliminations	TOTALS	
			2001	2000
\$ 5,955,510	\$ 555,632		\$ 14,748,403	\$ 13,821,828
		\$ (256,135)		
<u>\$ 5,955,510</u>	<u>\$ 555,632</u>	<u>\$ (256,135)</u>	<u>\$ 14,748,403</u>	<u>\$ 13,821,828</u>
\$ 1,166,000			\$ 1,858,414	\$ 1,578,912
1,349,127			1,365,095	1,356,281
936,438	67,920		3,378,026	3,248,219
1,109,507	\$ 55,575		1,824,851	2,257,924
			944,917	944,917
281,152			508,630	356,469
<u>\$ 4,842,224</u>	<u>\$ 123,495</u>	<u>\$ -</u>	<u>\$ 9,879,933</u>	<u>\$ 9,742,722</u>
\$ 1,113,286	\$ 432,137	\$ (256,135)	\$ 4,868,470	\$ 4,079,106
\$ 594,913	\$ 108,104		\$ 2,062,127	\$ 1,574,161
(409,744)		\$ 256,135	(1,935,418)	(1,970,756)
<u>\$ 185,169</u>	<u>\$ 108,104</u>	<u>\$ 256,135</u>	<u>\$ 126,709</u>	<u>\$ (396,595)</u>
\$ 1,298,455	\$ 540,241	\$ -	\$ 4,995,179	\$ 3,682,511
\$ 2,009,213			\$ 5,266,783	\$ 5,559,922
(1,814,387)	\$ (470,698)		(6,093,211)	(6,638,511)
<u>\$ 1,493,281</u>	<u>\$ 69,543</u>	<u>\$ -</u>	<u>\$ 4,168,751</u>	<u>\$ 2,603,922</u>
695,723			1,164,523	1,164,523
15,083,651	2,696,866		44,294,253	40,525,808
<u>\$ 17,272,655</u>	<u>\$ 2,766,409</u>	<u>\$ -</u>	<u>\$ 49,627,527</u>	<u>\$ 44,294,253</u>

City of Morgan Hill, California

Enterprise Funds

Combining Statement of Cash Flows

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Sewer Operations	Sewer Mitigation	Financing Corporation
Cash flows from operating activities:			
Operating income	\$ 1,160,578	\$ 2,162,469	\$ 256,135
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	561,251	98,518	
Amortization of sewer capacity rights	944,917		
Effect of changes in assets and liabilities:			
Receivables	(37,135)	(4,448)	
Notes receivable		(91,062)	
Accounts payable and accrued liabilities	(1,732)	(18,201)	
Customer and other deposits			
Other liabilities	2,402		
Net cash provided by operating activities	\$ 2,630,281	\$ 2,147,276	\$ 256,135
Cash flows from capital and related financing activities:			
Acquisition and construction of fixed assets	\$ (1,702,496)		
Payments of debt principal	(52,858)		
Interest paid	(1,054,633)	\$ (471,041)	\$ (256,135)
Payments for sewer capacity	(491,284)		
Net cash used in capital and related financing activities	\$ (3,301,271)	\$ (471,041)	\$ (256,135)
Cash flows from noncapital financing activities:			
Transfers in	\$ 3,257,570		
Transfers out	(1,664,721)	\$ (2,143,405)	
Net cash (used in) noncapital financing activities	\$ 1,592,849	\$ (2,143,405)	\$ -
Cash flows from investing activities:			
Interest received on investments	\$ 1,003,252	\$ 339,699	
Net cash provided by investing activities	\$ 1,003,252	\$ 339,699	\$ -
Net increase in cash and investments	\$ 1,925,111	\$ (127,471)	
Cash and investments - beginning of year	12,445,422	5,082,977	
Cash and investments - end of year	\$ 14,370,533	\$ 4,955,506	\$ -

Water Operations	Water Mitigation	Eliminations	TOTALS	
			2001	2000
\$ 1,113,286	\$ 432,137	\$ (256,135)	\$ 4,868,470	\$ 4,079,106
1,109,507	55,575		1,824,851	2,257,924
			944,917	944,917
(200,165)			(241,748)	(107,402)
			(91,062)	27,801
38,219	(27,584)		(9,298)	(37,672)
(6,632)			(6,632)	(3,936)
21,151	-		23,553	4,101
<u>\$ 2,075,366</u>	<u>\$ 460,128</u>	<u>\$ (256,135)</u>	<u>\$ 7,313,051</u>	<u>\$ 7,164,839</u>
\$ (1,558,242)			\$ (3,260,738)	\$ (3,708,788)
(142,759)			(195,617)	(139,272)
(409,744)		\$ 256,135	(1,935,418)	(1,890,249)
			(491,284)	(540,000)
<u>\$ (2,110,745)</u>	<u>\$ -</u>	<u>\$ 256,135</u>	<u>\$ (5,883,057)</u>	<u>\$ (6,278,309)</u>
\$ 2,009,213			\$ 5,266,783	\$ 5,559,922
(1,814,387)	\$ (470,698)		(6,093,211)	(6,638,511)
<u>\$ 194,826</u>	<u>\$ (470,698)</u>	<u>\$ -</u>	<u>\$ (826,428)</u>	<u>\$ (1,078,589)</u>
\$ 596,259	\$ 83,824		\$ 2,023,034	\$ 1,525,291
\$ 596,259	\$ 83,824	\$ -	\$ 2,023,034	\$ 1,525,291
\$ 755,706	\$ 73,254		\$ 2,626,600	\$ 1,333,232
7,386,987	1,390,518		26,305,904	24,972,672
<u>\$ 8,142,693</u>	<u>\$ 1,463,772</u>	<u>\$ -</u>	<u>\$ 28,932,504</u>	<u>\$ 26,305,904</u>

City of Morgan Hill

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods or services provided by a department for other departments on a cost-reimbursement basis.

Human Resources

This fund levies a charge against each department for its share, based on payroll, of the costs of operations for the Human Resources Office, including providing employment services to all City departments.

Finance

This fund levies a charge against each department for its share, based on a weighted average of total departmental expenditures, of the costs of operations for the finance department.

Building Maintenance

This fund levies a charge against each department for its share, based on the square footage of City owned facilities, the costs of operations for building maintenance.

CIP Administration

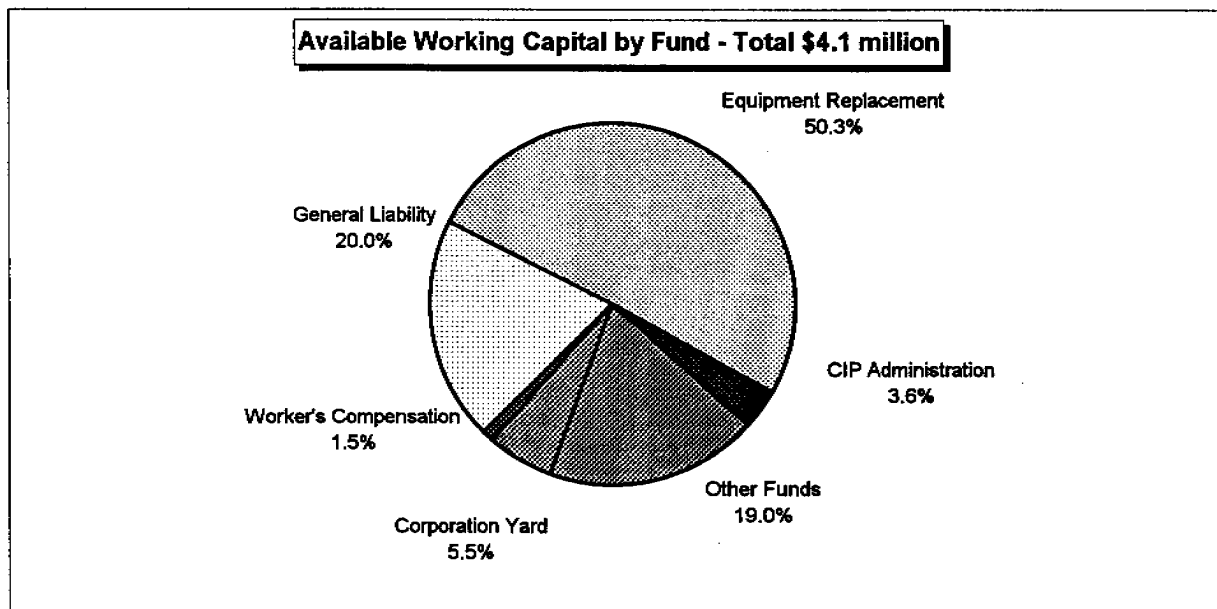
This fund levies a charge against each fund for its share, based on payroll, of the costs of implementing the capital improvements program including the costs incurred for personnel, administration and capital outlay.

City Legal Defense

This fund levies a charge against each department for their usage of legal services from the City Attorney.

Corporation Yard

This fund levies a charge, based upon actual usage, against various City funds and the Morgan Hill Unified School to finance the operations and capital improvements of a vehicle maintenance facility.



City of Morgan Hill

INTERNAL SERVICE FUNDS (Continued)

Unemployment Insurance

This fund receives funds through charging each department an assessment, based on gross salaries, to cover the cost of the charges for unemployment benefits levied by the state.

Workers' Compensation

This fund assesses a levy against all labor expenditures to provide the revenue to cover the costs for the excess workers' compensation insurance premium, claims administration and expense for the workers' compensation program. A fund reserve covers the City's \$250,000 deductible per claim.

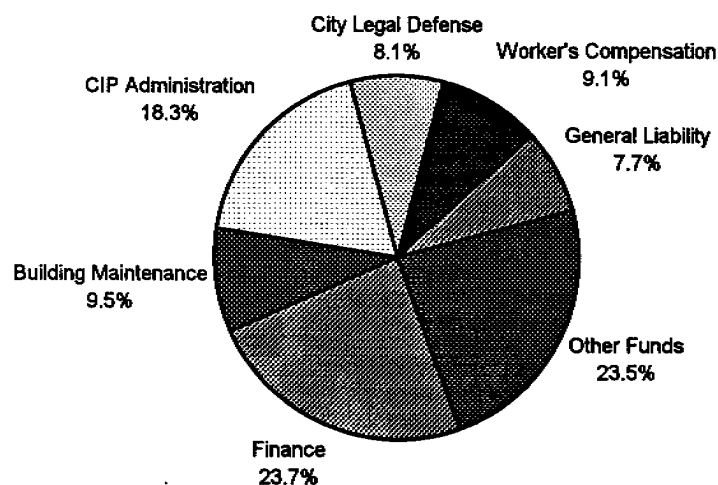
Equipment Replacement

This fund is used to accumulate reserves, via a charge to all operating departments with either equipment and/or vehicles to fund the replacement of the equipment and vehicles.

General Liability Insurance

This fund levies a charge against each operating fund/ department for its share, based on payroll, of the liability and property insurance programs to cover expenditures for insurance premiums, claims administration, and claims expense. A fund reserve covers the City's \$50,000 deductible per claim.

Expense Distribution by Fund - Total \$5.7 million



City of Morgan Hill, California

Internal Service Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

	Human Resources	Finance	Building Maintenance	CIP Administration
Assets				
Current assets:				
Pooled cash and investments	\$ 41,039	\$ 712,311	\$ 148,374	\$ 175,588
Restricted pooled cash and investments				
Receivables:				
Accrued interest				
Other accounts receivable				
Prepaid expenses				
Total current assets	\$ 41,039	\$ 712,311	\$ 148,374	\$ 175,588
Fixed assets, net	36,836	182,976	4,363	6,457
Total assets	\$ 77,875	\$ 895,287	\$ 152,737	\$ 182,045
Liabilities and Fund Equity				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 10,618	\$ 147,853	\$ 44,580	\$ 10,310
Accrued liabilities	6,475	12,587	1,811	8,855
Current obligations for:				
Capital lease obligations				
Bonds payable				
Compensated absences	3,268	18,963	593	6,885
Total current liabilities	\$ 20,361	\$ 179,403	\$ 46,984	\$ 26,050
Long term obligations for:				
Compensated absences		20,365	\$ 4,097	\$ 21,218
Total liabilities	\$ 20,361	\$ 199,768	\$ 51,081	\$ 47,268
Fund Equity:				
Retained earnings:				
Unreserved	\$ 57,514	\$ 695,519	\$ 101,656	\$ 134,777
Total fund equity	\$ 57,514	\$ 695,519	\$ 101,656	\$ 134,777
Total liabilities and fund equity	\$ 77,875	\$ 895,287	\$ 152,737	\$ 182,045

<u>City Legal Defense</u>	<u>Corporation Yard</u>	<u>Unemployment Insurance</u>	<u>Workers' Compensation Insurance</u>	<u>Equipment Replacement</u>
\$ 87,419	\$ 183,854	\$ 95,497	\$ 709,933 20,000	\$ 2,142,739
	2,387 160,318		6,817	29,198
				4,722
\$ 87,419	\$ 346,559	\$ 95,497	\$ 736,750	\$ 2,176,659
15,269	238,196			943,257
<u>\$ 102,688</u>	<u>\$ 584,755</u>	<u>\$ 95,497</u>	<u>\$ 736,750</u>	<u>\$ 3,119,916</u>
\$ 41,861 4,404	\$ 120,085		\$ 2,233 671,341	\$ 110,447
12,244				
<u>\$ 58,509</u>	<u>\$ 120,085</u>	<u>\$ -</u>	<u>\$ 673,574</u>	<u>\$ 110,447</u>
<u>\$ 58,509</u>	<u>\$ 120,085</u>	<u>\$ -</u>	<u>\$ 673,574</u>	<u>\$ 110,447</u>
\$ 44,179	\$ 464,670	\$ 95,497	\$ 63,176	\$ 3,009,469
<u>\$ 44,179</u>	<u>\$ 464,670</u>	<u>\$ 95,497</u>	<u>\$ 63,176</u>	<u>\$ 3,009,469</u>
<u>\$ 102,688</u>	<u>\$ 584,755</u>	<u>\$ 95,497</u>	<u>\$ 736,750</u>	<u>\$ 3,119,916</u>

(Continued)

City of Morgan Hill, California

Internal Service Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

	General Liability Insurance	TOTAL	
		2001	2000
Assets			
Current assets:			
Pooled cash and investments	\$ 1,117,673	\$ 5,414,427	\$ 4,564,979
Restricted pooled cash and investments		20,000	20,000
Receivables:			
Accrued interest	18,430	50,015	43,950
Other accounts receivable	4,981	172,116	79,719
Prepaid expenses		4,722	10,389
	<u>\$ 1,141,084</u>	<u>\$ 5,661,280</u>	<u>\$ 4,719,037</u>
Fixed assets, net		1,427,354	1,045,438
	<u>\$ 1,141,084</u>	<u>\$ 7,088,634</u>	<u>\$ 5,764,475</u>
Liabilities and Fund Equity			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 56	\$ 488,043	\$ 360,205
Accrued liabilities	321,088	1,026,561	603,428
Current obligations for:			
Capital lease obligations			
Bonds payable			
Compensated absences		41,953	38,793
	<u>\$ 321,144</u>	<u>\$ 1,556,557</u>	<u>\$ 1,002,426</u>
Long term obligations for:			
Compensated absences		\$ 45,680	30,015
	<u>\$ 321,144</u>	<u>\$ 1,602,237</u>	<u>\$ 1,032,441</u>
Fund Equity:			
Retained earnings:			
Unreserved	\$ 819,940	\$ 5,486,397	4,732,034
	<u>\$ 819,940</u>	<u>\$ 5,486,397</u>	<u>\$ 4,732,034</u>
	<u>\$ 1,141,084</u>	<u>\$ 7,088,634</u>	<u>\$ 5,764,475</u>

(Concluded)

City of Morgan Hill, California

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Human Resources	Finance	Building Maintenance	CIP Administration
Operating revenues:				
Charges for current services	\$ 439,559	\$ 1,090,284	\$ 560,625	\$ 1,268,434
Supplemental rent from operations				
Other operating income	15	25		
Total operating revenues	\$ 439,574	\$ 1,090,309	\$ 560,625	\$ 1,268,434
Operating expenses:				
Salaries and benefits	\$ 261,574	\$ 528,190	\$ 85,235	\$ 516,336
Claims and insurance premiums				
Operations and maintenance	128,766	694,754	416,282	175,262
Depreciation	12,622	105,418	30,585	17,860
Administrative charges	5,865	31,241	16,608	343,986
Total operating expenses	\$ 408,827	\$ 1,359,603	\$ 548,710	\$ 1,053,444
Operating income (loss)	\$ 30,747	\$ (269,294)	\$ 11,915	\$ 214,990
Nonoperating revenue (expense):				
Investment income				
Interest (expense)		\$ (738)		
Total nonoperating revenue (expense)	\$ -	\$ (738)	\$ -	\$ -
Income (loss) before operating transfers	\$ 30,747	\$ (270,032)	\$ 11,915	\$ 214,990
Operating transfers in		579,350		
Operating transfers (out)			(6,785)	(203,510)
Net income (loss)	\$ 30,747	\$ 309,318	\$ 5,130	\$ 11,480
Retained earnings - beginning of year	26,767	386,201	96,526	123,297
Equity transfer to general fund				
Retained earnings - end of year	\$ 57,514	\$ 695,519	\$ 101,656	\$ 134,777

(Continued)

City of Morgan Hill, California

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	City Legal Defense	Corporation Yard	Unemployment Insurance	Workers' Compensation Insurance
Operating revenues:				
Charges for current services	\$ 477,645		\$ 803	\$ 333,524
Supplemental rent from operations		\$ 785,051		
Other operating income	125			
Total operating revenues	\$ 477,770	\$ 785,051	\$ 803	\$ 333,524
Operating expenses:				
Salaries and benefits	\$ 234,557			
Claims and insurance premiums			\$ 556	\$ 502,034
Operations and maintenance	175,197	\$ 664,515		17,222
Depreciation	10,225	4,797		
Administrative charges	45,463		183	4,547
Total operating expenses	\$ 465,442	\$ 669,312	\$ 739	\$ 523,803
Operating income (loss)	\$ 12,328	\$ 115,739	\$ 64	\$ (190,279)
Nonoperating revenue (expense):				
Investment income		\$ 9,787		
Interest (expense)				
Total nonoperating revenue (expense)	\$ -	\$ 9,787	\$ -	\$ -
Income (loss) before operating transfers	\$ 12,328	\$ 125,526	\$ 64	\$ (190,279)
Operating transfers in				
Operating transfers (out)				
Net income (loss)	\$ 12,328	\$ 125,526	\$ 64	\$ (190,279)
Retained earnings - beginning of year	31,851	339,144	95,433	253,455
Equity transfer to general fund				
Retained earnings - end of year	\$ 44,179	\$ 464,670	\$ 95,497	\$ 63,176

Equipment Replacement	General Liability Insurance	TOTALS	
		2001	2000
\$ 402,794	\$ 251,175	\$ 4,824,843	\$ 4,097,440
		785,051	278,123
39,939	4,981	45,085	75,000
\$ 442,733	\$ 256,156	\$ 5,654,979	\$ 4,450,563
		\$ 1,625,892	\$ 1,522,829
	\$ 66,688	569,278	227,015
\$ 5,666	369,503	2,647,167	1,361,907
260,406		441,913	247,936
8,099	6,455	462,447	446,999
\$ 274,171	\$ 442,646	\$ 5,746,697	\$ 3,806,686
\$ 168,562	\$ (186,490)	\$ (91,718)	\$ 643,877
\$ 125,519	\$ 77,042	\$ 212,348	\$ 147,463
		(738)	(179,406)
\$ 125,519	\$ 77,042	\$ 211,610	\$ (31,943)
\$ 294,081	\$ (109,448)	\$ 119,892	\$ 611,934
265,416		844,766	644,083
		(210,295)	(214,585)
\$ 559,497	\$ (109,448)	\$ 754,363	\$ 1,041,432
2,449,972	929,388	4,732,034	3,735,431
		-	(44,829)
\$ 3,009,469	\$ 819,940	\$ 5,486,397	\$ 4,732,034

(Concluded)

City of Morgan Hill, California

Internal Service Funds

Combining Statement of Cash Flows

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	Human Resources	Finance	Building Maintenance
Cash flows from operating activities:			
Operating income (loss)	\$ 30,747	\$ (269,294)	\$ 11,915
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	12,622	105,418	30,585
Effect of changes in assets and liabilities:			
Receivables			
Prepaid expenses			
Accounts payable and accrued liabilities	10,440	(20,629)	19,973
Other liabilities	595	7,312	2,621
Due to/from other funds		(36,891)	
Net cash provided by (used in) operating activities	\$ 54,404	\$ (214,084)	\$ 65,094
Cash flows from capital and related financing activities:			
Acquisition and construction of fixed assets	\$ (30,748)	\$ (104,169)	(5,130)
Payments of debt principal			
Interest paid		(738)	
Net cash used in capital related financing activities	\$ (30,748)	\$ (104,907)	\$ (5,130)
Cash flows from noncapital financing activities:			
Transfers in		\$ 579,350	
Transfers out			\$ (6,785)
Net cash used in noncapital financing activities	\$ -	\$ 579,350	\$ (6,785)
Cash flows from investing activities:			
Interest received on investments			
Net cash provided by investing activities	\$ -	\$ -	\$ -
Net increase (decrease) in cash and investments	\$ 23,656	\$ 260,359	\$ 53,179
Cash and investments - beginning of year	17,383	451,952	95,195
Cash and investments - end of year	\$ 41,039	\$ 712,311	\$ 148,374

<u>CIP Administration</u>	<u>City Legal Defense</u>	<u>Corporation Yard</u>	<u>Unemployment Insurance</u>	<u>Workers' Compensation Insurance</u>	<u>Equipment Replacement</u>
\$ 214,990	\$ 12,328	\$ 115,739	\$ 64	\$ (190,279)	\$ 168,562
17,860	10,225	4,797			260,406
		(133,251)		(212)	5,667
305	(29,303)	63,123		312,331	85,582
(3,518)	11,815				36,891
<u>\$ 229,637</u>	<u>\$ 5,065</u>	<u>\$ 50,408</u>	<u>\$ 64</u>	<u>\$ 121,840</u>	<u>\$ 557,108</u>
\$ (2,473)	\$ (12,328)				\$ (668,981)
<u>\$ (2,473)</u>	<u>\$ (12,328)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (668,981)</u>
					\$ 265,416
<u>\$ (203,510)</u>					
<u>\$ (203,510)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 265,416</u>
		\$ 8,287			\$ 120,699
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,699</u>
\$ 23,654	\$ (7,263)	\$ 58,695	\$ 64	\$ 121,840	\$ 274,242
151,934	94,682	125,159	95,433	608,093	1,868,497
<u>\$ 175,588</u>	<u>\$ 87,419</u>	<u>\$ 183,854</u>	<u>\$ 95,497</u>	<u>\$ 729,933</u>	<u>\$ 2,142,739</u>
(Continued)					

City of Morgan Hill, California

Internal Service Funds

Combining Statement of Cash Flows

Year ended June 30, 2001

(With comparative totals for the year ended June 30, 2000)

	General Liability Insurance	TOTALS	
		2001	2000
Cash flows from operating activities:			
Operating income (loss)	\$ (186,490)	\$ (91,718)	\$ 643,877
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation		441,913	247,936
Effect of changes in assets and liabilities:			
Receivables	41,066	(92,397)	(15,028)
Prepaid expenses		5,667	5,666
Accounts payable and accrued liabilities	109,149	550,971	(290,563)
Other liabilities		18,825	(82,088)
Due to/from other funds			
Net cash provided by (used in) operating activities	\$ (36,275)	\$ 833,261	\$ 509,800
Cash flows from capital and related financing activities:			
Acquisition and construction of fixed assets		\$ (823,829)	\$ (269,831)
Payments of debt principal			(66,930)
Interest paid		(738)	(179,406)
Net cash used in capital related financing activities	\$ -	\$ (824,567)	\$ (516,167)
Cash flows from noncapital financing activities:			
Transfers in		\$ 844,766	\$ 644,083
Transfers out		(210,295)	(259,414)
Net cash used in noncapital financing activities	\$ -	\$ 634,471	\$ 384,669
Cash flows from investing activities:			
Interest received on investments	\$ 77,297	\$ 206,283	137,976
Net cash provided by investing activities	\$ 77,297	\$ 206,283	\$ 137,976
Net increase (decrease) in cash and investments	\$ 41,022	\$ 849,448	\$ 516,278
Cash and investments - beginning of year	1,076,651	4,584,979	4,068,701
Cash and investments - end of year	\$ 1,117,673	\$ 5,434,427	\$ 4,584,979

(Concluded)

City of Morgan Hill

AGENCY FUNDS

Agency funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, organizations, other governmental units and/or other funds. Assets equal liabilities and the measurement of operations is not a focus.

Special Deposits

This fund receives deposits to guarantee performance on various types of agreements between individuals or companies and the City. The City holds the deposits until such time as the individual or company perform in accordance with the agreement, at which time the deposit is returned to the individual or company. In case of nonperformance, the City retains the deposit.

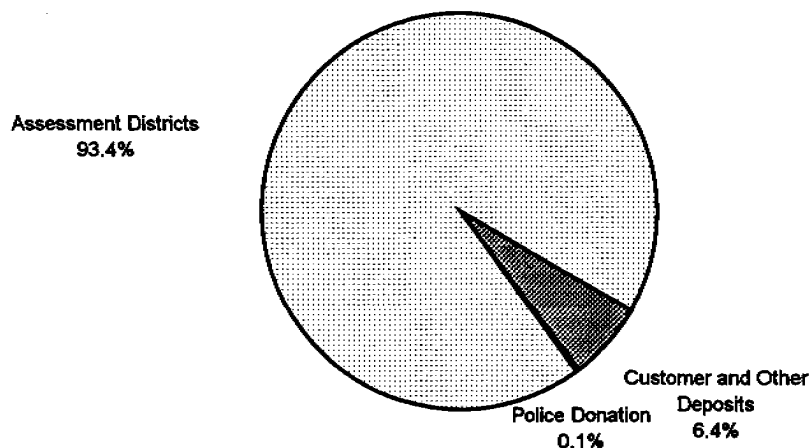
Police Donation Fund

This fund accounts for donations the City receives for specific programs. This includes the graffiti wipe out program and the DARE program.

Special Assessment District Agency Funds

These funds are established to permit the City to sell bonds to provide the funds to construct improvements in new developments. Typically, these improvements are streets, curbs, gutters, sidewalks, water and sewer lines, undergrounding of utilities, and storm drains. The individual lots are assessed a proportionate share of the improvements and the County levies this assessment as part of the annual property tax bill. The County remits the collections to the City, which in turn pays the debt service on the bonds. The debt is an obligation of the property owners and the City has no legal liability relating to these bond issues.

Cash Distribution by Type of Deposit - Total \$15.6 million



City of Morgan Hill, California

Agency Funds

Combining Balance Sheet

June 30, 2001

(With comparative totals for June 30, 2000)

	<u>Special Deposits</u>	<u>M.H. Business Ranch A.D.</u>	<u>Tennant Business Park A.D.</u>
Assets			
Restricted pooled cash and investments	\$ 1,001,499	\$ 2,295,201	\$ 943,290
Cash with fiscal agents		897,658	
Accounts receivable	14,905	262,934	12,253
Total Assets	<u>\$1,016,404</u>	<u>\$ 3,455,793</u>	<u>\$ 955,543</u>
Liabilities			
Accounts payable	\$ 37,914		
Customer and other deposits	978,490	\$ 3,455,793	\$ 955,543
Total Liabilities	<u>\$ 1,016,404</u>	<u>\$ 3,455,793</u>	<u>\$ 955,543</u>

Police Donation	Madrone Business Park A.D.	TOTALS	
		2001	2000
\$ 21,088	\$ 294,951	\$ 4,556,029	\$ 3,592,179
	10,152,669	11,050,327	1,113,490
323	28,700	319,115	63,867
<u>\$ 21,411</u>	<u>\$ 10,476,320</u>	<u>\$ 15,925,471</u>	<u>\$ 4,769,536</u>
\$ 21,411	\$ 10,476,320	\$ 37,914	\$ 20,912
		15,887,557	4,748,624
<u>\$ 21,411</u>	<u>\$ 10,476,320</u>	<u>\$ 15,925,471</u>	<u>\$ 4,769,536</u>

City of Morgan Hill, California

Agency Funds

Combining Statement of Changes in Assets and Liabilities

Year ended June 30, 2001

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
<u>Special Deposits</u>				
Restricted pooled cash and investments	\$ 706,218	\$ 652,257	\$ 356,976	\$ 1,001,499
Accounts Receivable	11,808	18,146	15,049	14,905
Total Assets	<u>\$ 718,026</u>	<u>\$ 670,403</u>	<u>\$ 372,025</u>	<u>\$ 1,016,404</u>
Accounts payable	\$ 20,912	\$ 37,914	\$ 20,912	\$ 37,914
Customer and other deposits	697,114	632,489	351,113	978,490
Total Liabilities	<u>\$ 718,026</u>	<u>\$ 670,403</u>	<u>\$ 372,025</u>	<u>\$ 1,016,404</u>
<u>Morgan Hill Business Ranch A.D.</u>				
Restricted pooled cash and investments	\$ 2,258,679	\$ 1,686,659	\$ 1,650,137	\$ 2,295,201
Cash with fiscal agents	1,113,490	178,245	394,077	897,658
Accounts Receivable	44,730	280,365	62,161	262,934
Total Assets	<u>\$ 3,416,899</u>	<u>\$ 2,145,269</u>	<u>\$ 2,106,375</u>	<u>\$ 3,455,793</u>
Customer and other deposits	\$ 3,416,899	\$ 2,145,269	\$ 2,106,375	\$ 3,455,793
Total Liabilities	<u>\$ 3,416,899</u>	<u>\$ 2,145,269</u>	<u>\$ 2,106,375</u>	<u>\$ 3,455,793</u>
<u>Tennant Business Park A.D.</u>				
Restricted pooled cash and investments	\$ 589,607	\$ 666,412	\$ 312,729	\$ 943,290
Accounts Receivable	6,754	12,254	6,755	12,253
Total Assets	<u>\$ 596,361</u>	<u>\$ 678,666</u>	<u>\$ 319,484</u>	<u>\$ 955,543</u>
Customer and other deposits	\$ 596,361	\$ 678,666	\$ 319,484	\$ 955,543
Total Liabilities	<u>\$ 596,361</u>	<u>\$ 678,666</u>	<u>\$ 319,484</u>	<u>\$ 955,543</u>

(Continued)

City of Morgan Hill, California

Agency Funds

Combining Statement of Changes in Assets and Liabilities (Continued)

Year ended June 30, 2001

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
<u>Police Donation Fund</u>				
Restricted pooled cash and investments	\$ 18,485	\$ 5,088	\$ 2,485	\$ 21,088
Accounts Receivable	272	323	272	323
Total Assets	<u>\$ 18,757</u>	<u>\$ 5,411</u>	<u>\$ 2,757</u>	<u>\$ 21,411</u>
Customer and other deposits	\$ 18,757	\$ 5,411	\$ 2,757	\$ 21,411
Total Liabilities	<u>\$ 18,757</u>	<u>\$ 5,411</u>	<u>\$ 2,757</u>	<u>\$ 21,411</u>
<u>Madrone Business Park A.D.</u>				
Restricted pooled cash and investments	\$ 19,190	\$ 329,585	\$ 53,824	\$ 294,951
Cash with Fiscal Agent		10,552,436	399,767	10,152,669
Accounts Receivable	303	28,700	303	28,700
Total Assets	<u>\$ 19,493</u>	<u>\$ 10,910,721</u>	<u>\$ 453,894</u>	<u>\$ 10,476,320</u>
Accounts Payable		\$ 34,499	\$ 34,499	\$ -
Customer and other deposits	\$ 19,493	10,876,222	419,395	10,476,320
Total Liabilities	<u>\$ 19,493</u>	<u>\$ 10,910,721</u>	<u>\$ 453,894</u>	<u>\$ 10,476,320</u>
<u>Totals - Agency Funds</u>				
Restricted pooled cash and investments	\$ 3,592,179	\$ 3,340,001	\$ 2,376,151	\$ 4,556,029
Cash with fiscal agents	1,113,490	10,730,681	793,844	11,050,327
Accounts Receivable	63,867	339,788	84,540	319,115
Total Assets	<u>\$ 4,769,536</u>	<u>\$ 14,410,470</u>	<u>\$ 3,254,535</u>	<u>\$ 15,925,471</u>
Accounts payable	\$ 20,912	\$ 72,413	\$ 55,411	\$ 37,914
Customer and other deposits	4,748,624	14,338,057	3,199,124	15,887,557
Total Liabilities	<u>\$ 4,769,536</u>	<u>\$ 14,410,470</u>	<u>\$ 3,254,535</u>	<u>\$ 15,925,471</u>

(Concluded)

City of Morgan Hill

GENERAL FIXED ASSET ACCOUNT GROUP

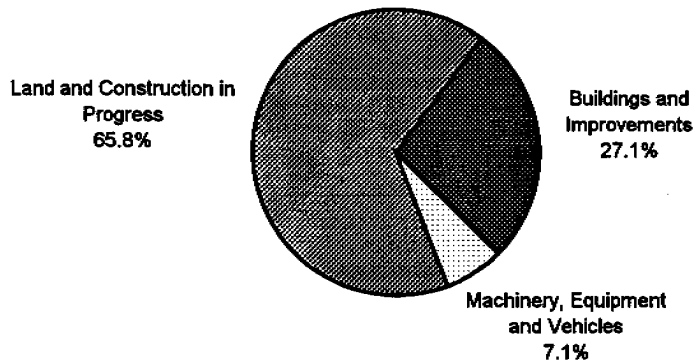
This account group is used to establish accounting control and accountability for the City's general fixed assets. Fixed assets of the City other than those accounted for in the Proprietary Fund Types are accounted for in this account group. Total Proprietary Fund Fixed Assets, net of depreciation, totaled approximately \$46.1 million as of June 30, 1998, and consisted of \$15.5 million in the sewer funds, \$29.8 million in the water funds, and \$0.8 million in total for the inter-service funds.

General fixed assets have been acquired for general governmental purposes and for long-term, future redevelopment. Assets purchased are recorded as expenditures in the governmental funds and are capitalized in the General Fixed Asset Account Group. Purchased fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are recorded at estimated fair market value at time received.

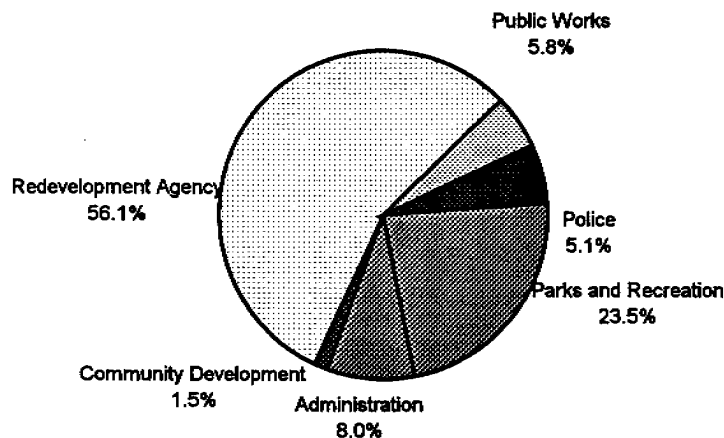
Public domain general fixed assets, consisting of certain improvements other than buildings, and including assets such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems, are not capitalized and are not in the General Fixed Assets Account Group. Such assets are normally immovable and of value only to the City, the purpose of stewardship for capital expenditures is satisfied without recording such assets.

No depreciation has been provided on general fixed assets.

Distribution of General Fixed Assets by Type - Total \$25.8 million



Distribution of General Fixed Assets by Department - Total \$25.8 million



City of Morgan Hill, California
Schedule of General Fixed Assets by Source
June 30, 2001

General Fixed Assets

Land	\$ 15,332,103
Buildings and Improvements	6,982,828
Machinery, Equipment and Vehicles	1,826,650
Construction in Progress	<u>1,651,122</u>
Total General Fixed Assets	<u>\$ 25,792,703</u>

Investment in General Fixed Assets - Funded by:

Redevelopment Tax Increment	\$ 14,470,227
Donations	5,792,208
Capital Project Funds	2,075,177
Special Revenue Funds	622,143
General Fund	<u>2,832,948</u>
Total Investment in General Fixed Assets	<u>\$ 25,792,703</u>

City of Morgan Hill, California

Schedule of General Fixed Assets by Function and Activity

June 30, 2001

Function and Activity	Land	Buildings & Improvements	Machinery Equipment & Vehicles	Construction in Progress	Totals
Administration	\$ 545,070	\$ 1,285,749	\$ 227,949		\$ 2,058,768
Community Development		17,935	372,739		390,674
Redevelopment Agency	10,483,145	2,773,627	136,679	\$ 1,076,776	14,470,227
Public Works	82,315	832,847	498,948	80,262	1,494,372
Public Safety	243,014	541,062	516,973	20,244	1,321,293
Parks and Recreation	3,978,559	1,531,608	73,362	473,840	6,057,369
Totals	\$ 15,332,103	\$ 6,982,828	\$ 1,826,650	\$ 1,651,122	\$ 25,792,703

City of Morgan Hill, California

Schedule of Changes in General Fixed Assets by Function and Activity

Year ended June 30, 2001

Function and Activity	Balance July 1, 2000	Additions	Retirements Transfers	Balance June 30, 2001
Administration	\$ 1,364,432	\$ 694,786	\$ (450)	\$ 2,058,768
Community Development	334,073	67,976	(11,375)	390,674
Redevelopment Agency	7,116,933	7,353,294		14,470,227
Public Works	1,401,009	104,838	(11,475)	1,494,372
Public Safety	1,265,913	104,584	(49,204)	1,321,293
Parks and Recreation	5,412,951	644,418		6,057,369
Totals	\$ 16,895,311	\$ 8,969,896	\$ (72,504)	\$ 25,792,703

City of Morgan Hill

STATISTICAL SECTION

The statistical section includes a number of statistical tables and charts, providing financial, economic, social, and demographic data about the City. This section reveals trends affecting the City.

The statistical schedules below provide a ten year history on a variety of financial items:

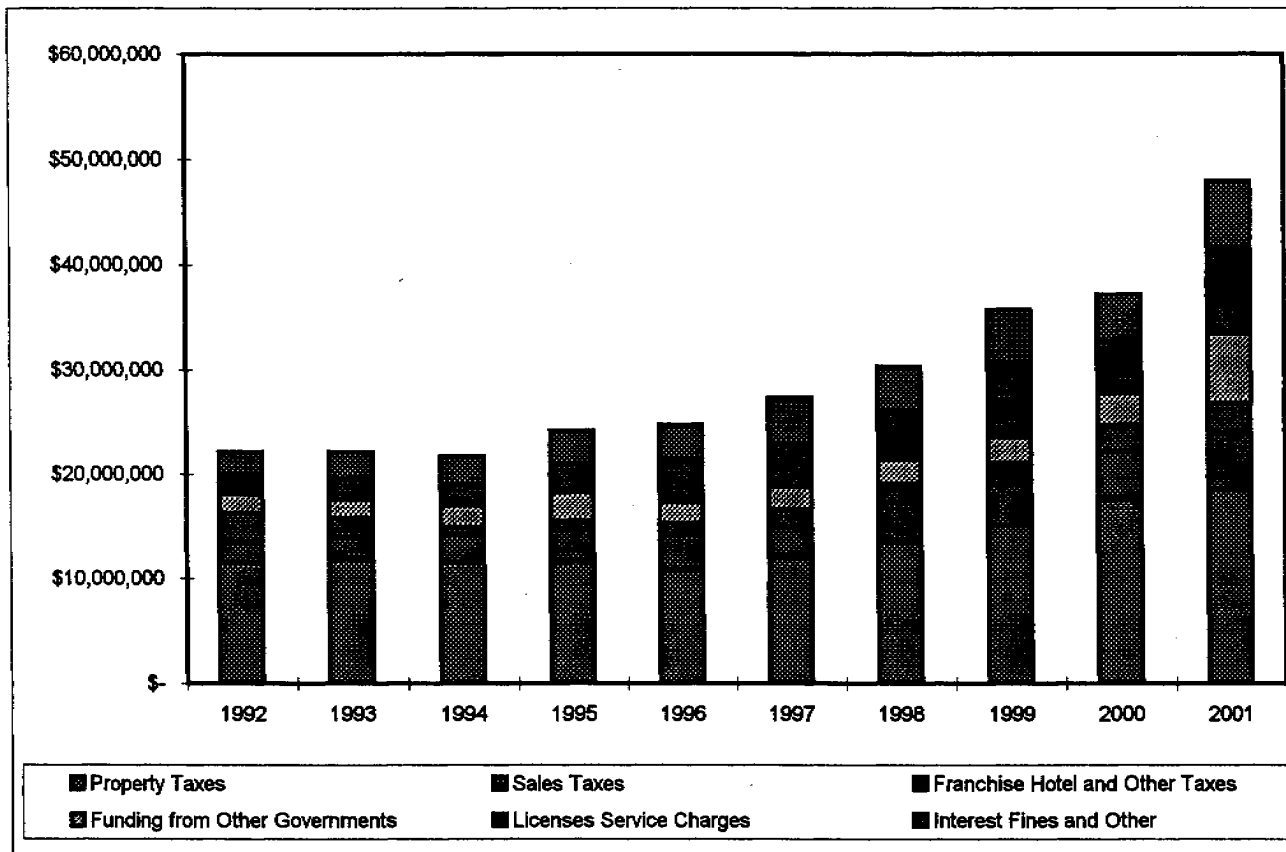
- a. General Governmental Revenues by Source and Expenditures by Function
- b. Assessed and Estimated Actual Value of Taxable Property
- c. General Fund Property Tax Levies and Collections
- d. Property Tax Rates - Direct and Overlapping Governments
- e. Property Values, Construction and Bank Deposits
- f. Demographic Statistics
- g. Special Assessment Billings and Collections
- h. Ratio of Net General Obligation Bonded Debt to Assessed Value and Net Bonded Debt Per Capita.
- i. Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures
- j. Sewer Revenue Bond Coverage

In addition, the statistical section contains several other useful tables, including:

- a. Principal Employers - this lists the City's major employers which provide a significant amount of employment, sales and property tax revenue to the City.
- b. Property, Sales, Transient Occupancy & Business License Taxes Per Capita, Total Revenue per Capita - these provide comparative revenue information for all cities in Santa Clara County, in comparison against the County average.
- c. Schedule of Direct and Overlapping Debt - this reports on debt of all governmental agencies that is supported at least in part, by the City's taxpayers.
- d. Computation of Legal Debt Margin - this table calculates the City's legal debt limit (the maximum amount of debt the City can issue) and compares it to the debt outstanding at the end of the year to produce the legal debt margin (the amount of debt the City can issue in future years).
- e. Miscellaneous Statistics - this table provides additional information related to the City's financial condition demographics and services provided.

City of Morgan Hill, California

General Governmental Revenues by Source - Last Ten Fiscal Years



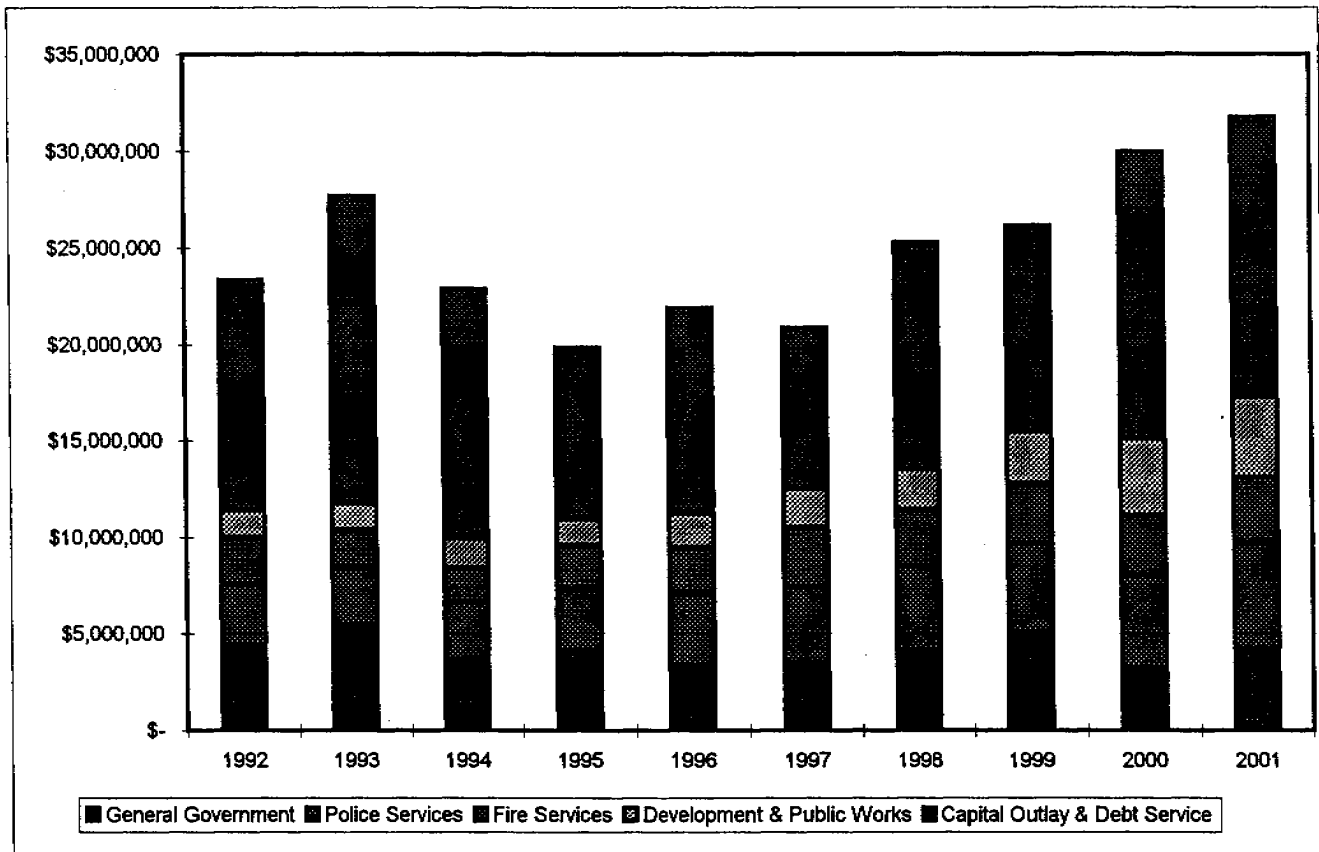
Fiscal Year	Property Taxes	Sales Taxes	Franchise Hotel and Other Taxes	Funding from Other Governments	Licenses Service Charges	Interest Fines and Other	Totals
1992	\$ 11,490,921	\$ 2,058,940	\$ 2,698,670	\$ 1,815,198	\$ 1,783,903	\$ 2,281,374	\$ 22,129,006
1993	11,813,755	2,076,076	1,923,642	1,794,195	1,995,774	2,514,112	22,117,554
1994	11,541,133	2,652,090	690,064	2,109,677	2,014,726	2,682,975	21,690,665
1995	11,584,064	3,028,094	923,748	2,754,175	2,576,913	3,258,162	24,125,156
1996	10,889,489	3,213,586	1,193,623	2,010,451	4,094,657	3,303,862	24,705,668
1997	11,885,844	3,104,685	1,636,140	2,201,724	3,998,873	4,502,628	27,329,894
1998	13,533,222	3,762,371	1,748,706	2,297,996	4,675,066	4,247,341	30,264,702
1999	15,049,473	3,990,716	1,994,321	2,471,349	7,127,820	5,059,442	35,693,121
2000	17,655,775	4,454,774	2,525,798	3,000,557	5,033,724	4,441,596	37,112,224
2001	18,431,805	5,532,132	2,803,261	6,628,611	8,032,803	6,498,641	47,927,253

Note: The City's Utility Tax was repealed effective January 1, 1993

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

General Governmental Expenditures by Function - Last Ten Fiscal Years



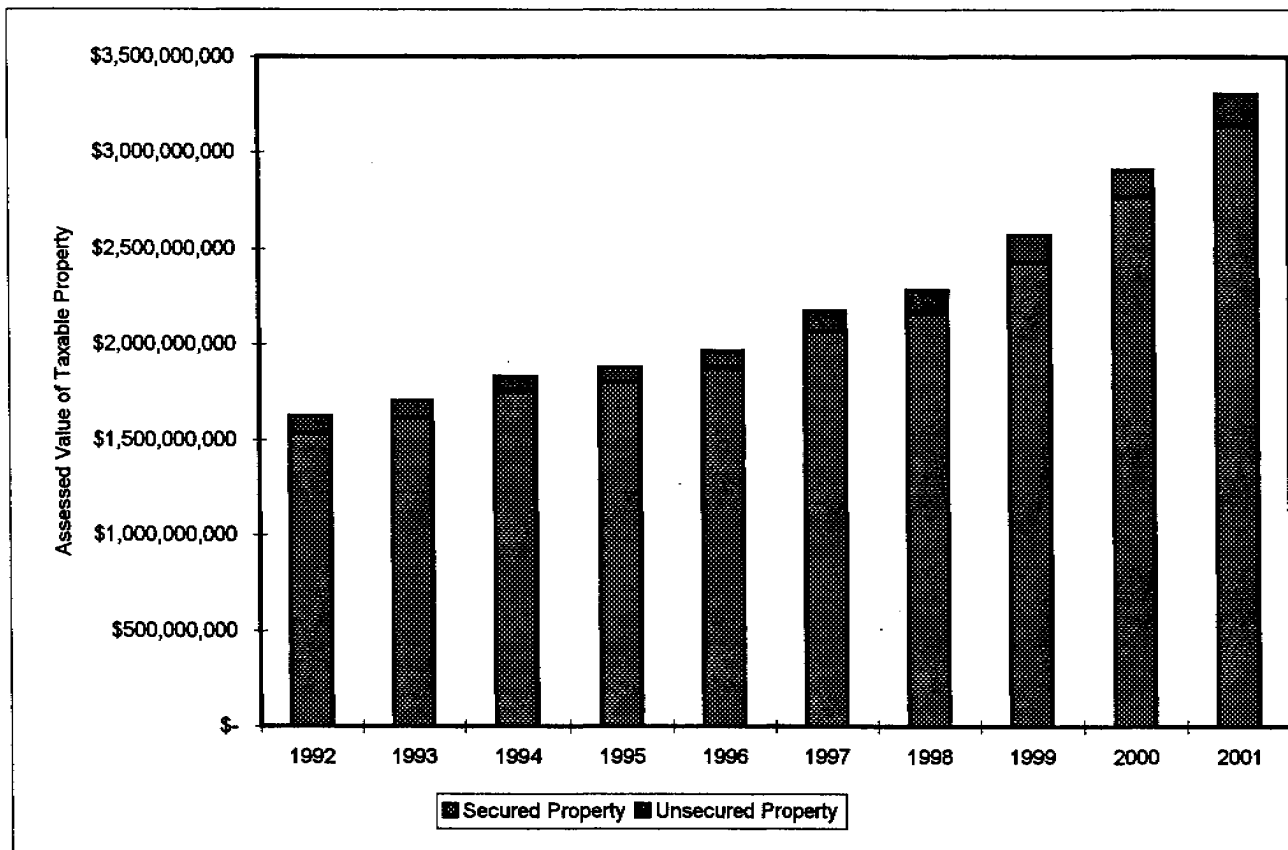
Fiscal Year	General Government	Police Services	Fire Services	Development & Public Works	Capital Outlay & Debt Service	Total
1992	\$ 4,459,396	\$ 3,116,402	\$ 2,449,171	\$ 1,357,335	\$ 11,976,875	\$ 23,359,179
1993	5,431,893	3,008,219	1,949,051	1,317,837	15,997,144	27,704,144
1994	3,698,774	2,950,141	1,768,999	1,512,109	12,943,510	22,873,533
1995	4,131,617	3,244,260	2,224,823	1,317,124	8,940,441	19,858,265
1996	3,346,799	3,765,319	2,386,407	1,731,122	10,658,001	21,887,648
1997	3,412,365	4,069,462	3,067,547	1,960,331	8,357,653	20,867,358
1998	4,141,230	4,319,711	2,979,454	2,054,251	11,800,009	25,294,655
1999	5,065,372	4,629,768	3,077,031	2,685,493	10,674,428	26,132,092
2000	3,216,402	4,810,040	3,118,160	3,926,968	14,884,975	29,956,545
2001	4,225,128	5,529,991	3,350,334	4,145,308	14,515,759	31,766,520

Note: The City disbanded its Recreation Department during the FY 1992-93. It was reestablished in FY 1997-98.

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years

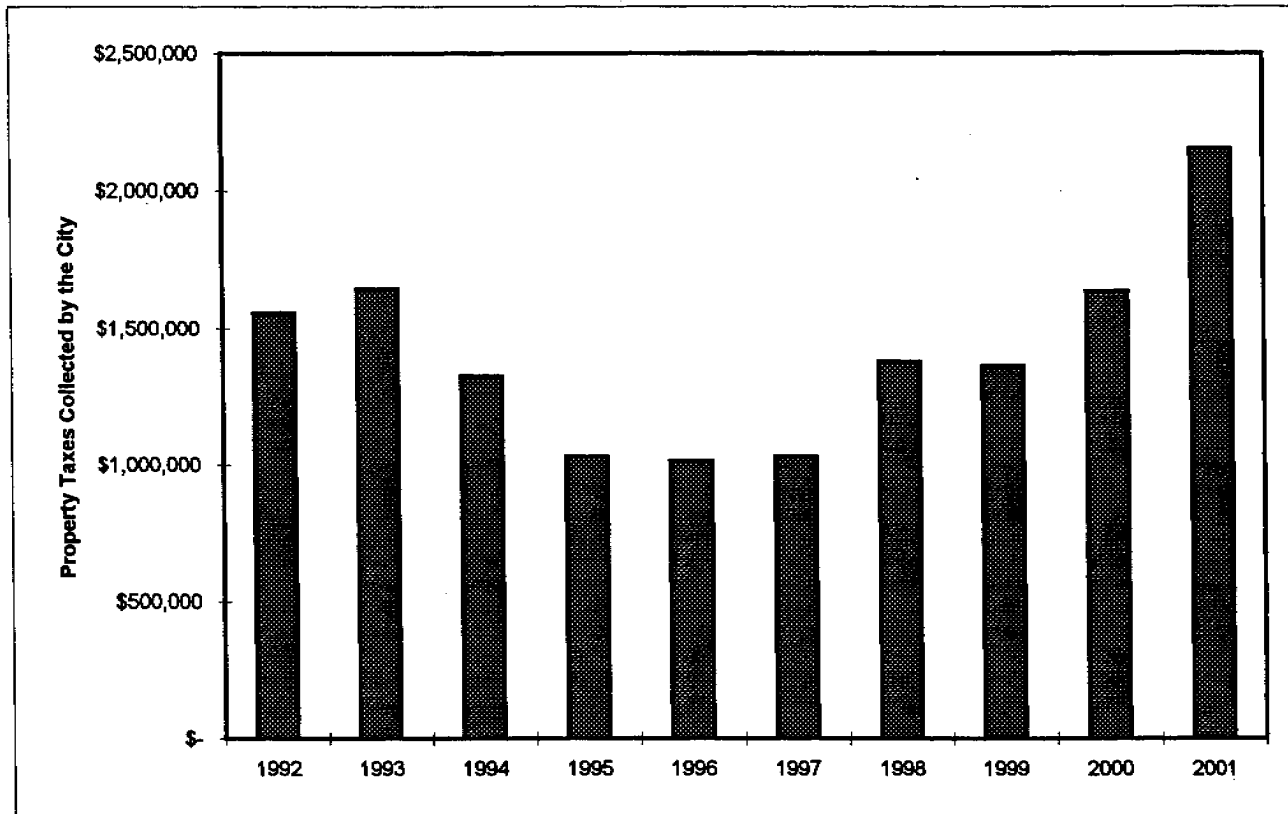


Fiscal Year	Secured Property	Unsecured Property	Total Assessed	Estimated Market
1992	\$ 1,529,213,773	\$ 93,562,319	\$ 1,622,776,092	\$ 1,622,776,092
1993	1,615,399,314	89,412,299	1,704,811,613	1,704,811,613
1994	1,752,925,165	76,272,468	1,829,197,633	1,829,197,633
1995	1,802,279,091	74,424,527	1,876,703,618	1,876,703,618
1996	1,872,852,078	89,383,013	1,962,235,091	1,962,235,091
1997	2,067,578,668	104,430,641	2,172,009,309	2,172,009,309
1998	2,165,464,553	117,355,113	2,282,819,666	2,282,819,666
1999	2,425,372,759	143,744,374	2,569,117,133	2,569,117,133
2000	2,765,363,043	141,101,487	2,906,464,530	2,906,464,530
2001	3,138,372,709	163,977,576	3,302,350,285	3,302,350,285

Source: County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

General Fund Property Tax Levies and Collections - Last Ten Fiscal Years

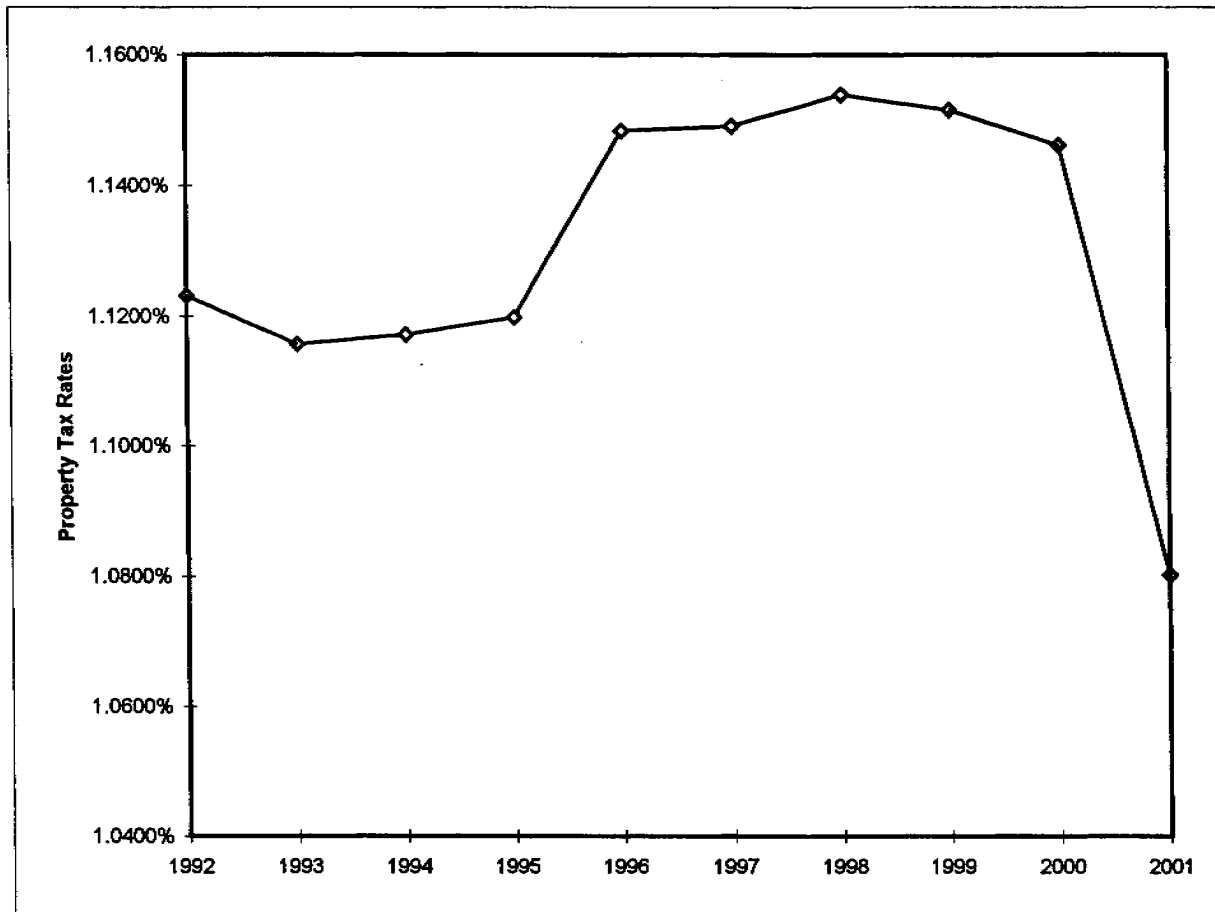


Fiscal Year	Property Tax Levied and Collected		Property Tax Rates		Value of Property Subject to Local Tax Rates
	Total	City's Portion	Total	City's Portion	
1992	\$ 18,225,398	\$ 1,556,673	1.1231%	8.5412%	\$ 1,622,776,092
1993	19,020,583	1,645,467	1.1157%	8.6510%	1,704,811,613
1994	20,433,967	1,326,008	1.1171%	6.4892%	1,829,197,633
1995	21,015,327	1,031,614	1.1198%	4.9089%	1,876,703,618
1996	22,534,308	1,013,276	1.1484%	4.4966%	1,962,235,091
1997	24,958,559	1,030,483	1.1491%	4.1288%	2,172,009,309
1998	26,110,891	1,379,572	1.1538%	5.2835%	2,282,819,666
1999	29,385,562	1,363,527	1.1515%	4.6401%	2,569,117,133
2000	33,310,990	1,635,769	1.1461%	4.9106%	2,906,464,530
2001	35,671,988	2,153,016	1.0802%	6.0356%	3,302,350,285

Sources: City of Morgan Hill Annual Financial Reports
County of Santa Clara Tax Rates and Information
Financial Transactions concerning Cities of California

City of Morgan Hill, California

Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years



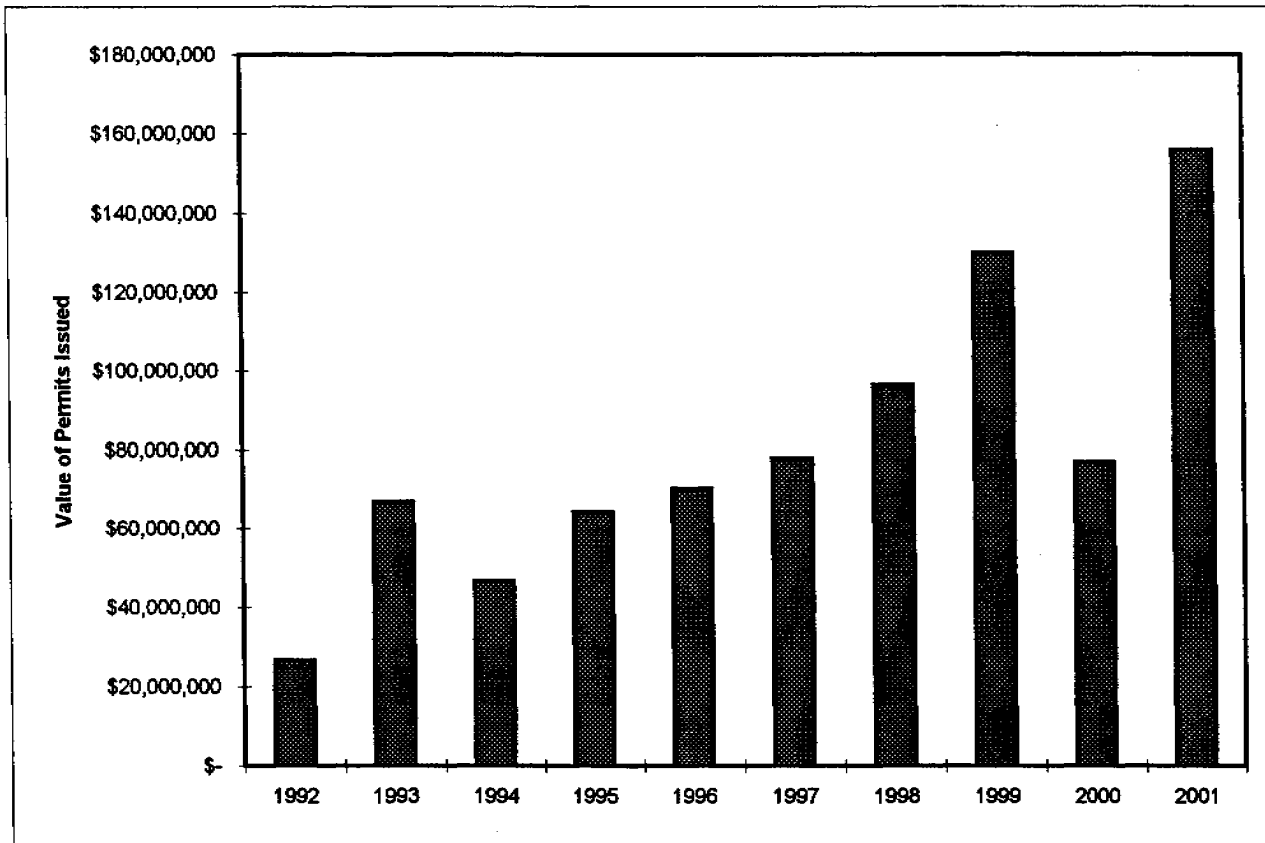
Fiscal Year	Basic County Wide Levy	Additional Approved Supplemental Taxes			
		County	City	Schools and Other Districts	Total Tax Rate
1992	1.0000%	0.0412%	0.0100%	0.0719%	1.1231%
1993	1.0000%	0.0313%	0.0160%	0.0684%	1.1157%
1994	1.0000%	0.0329%	0.0000%	0.0842%	1.1171%
1995	1.0000%	0.0356%	0.0000%	0.0842%	1.1198%
1996	1.0000%	0.0362%	0.0000%	0.1122%	1.1484%
1997	1.0000%	0.0365%	0.0000%	0.1126%	1.1491%
1998	1.0000%	0.0412%	0.0000%	0.1126%	1.1538%
1999	1.0000%	0.0405%	0.0000%	0.1110%	1.1515%
2000	1.0000%	0.0343%	0.0000%	0.1118%	1.1461%
2001	1.0000%	0.0380%	0.0000%	0.0422%	1.0802%

Note: A portion of the Basic County Wide Levy is distributed to Cities, Schools, and Other Districts per State Proposition 13.

Source: County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

Property Values, Construction and Bank Deposits - Last Ten Fiscal Years



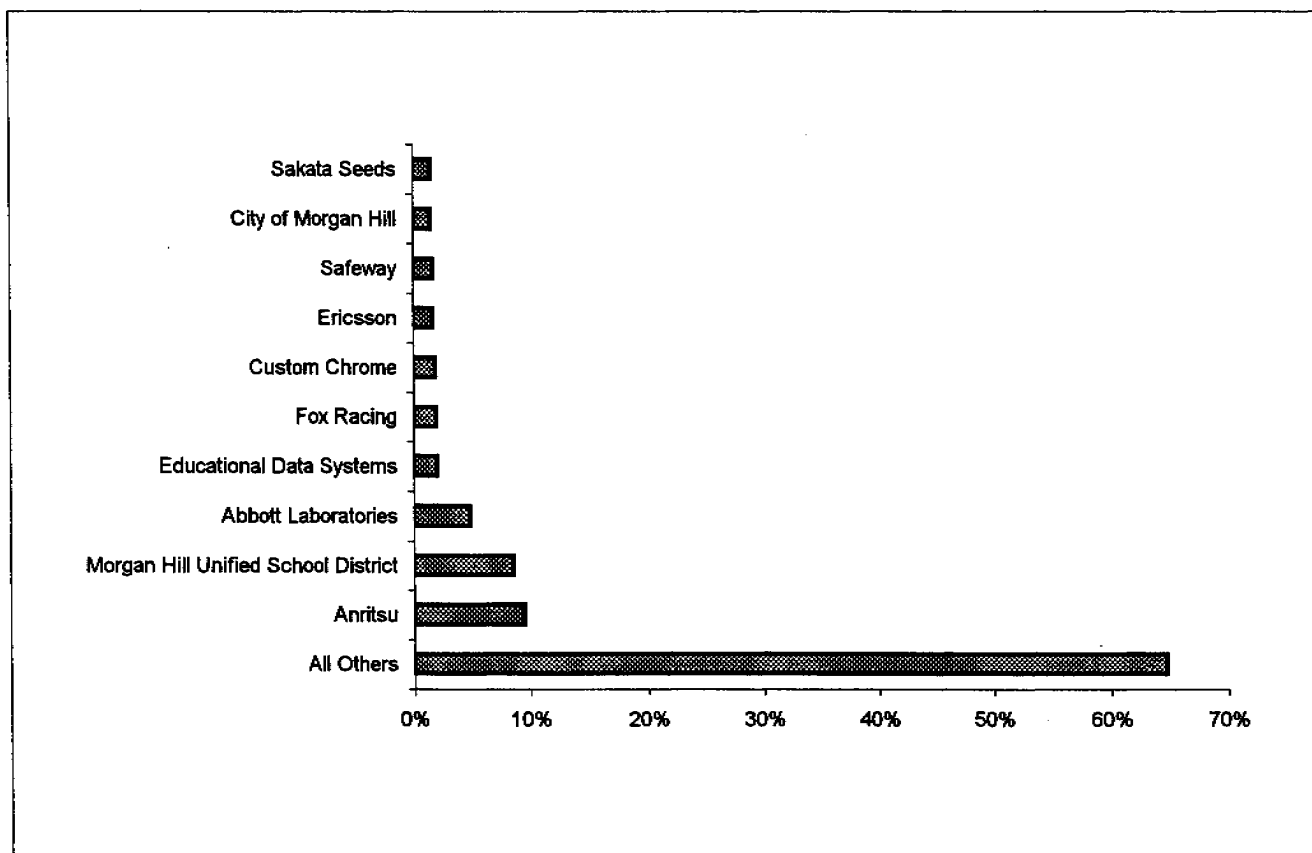
Fiscal Year	Assessed Property Values	Total Building Permits Issued	Value of Permits Issued for			Bank Deposits
			Commercial	Residential	Total	
1992	\$1,704,811,613	48	\$ 5,201,000	\$ 21,272,008	\$ 26,473,008	\$ 300,660,000
1993	1,829,197,633	1,042	10,947,000	55,884,835	66,831,835	284,244,000
1994	1,876,703,618	1,322	10,899,547	35,811,864	46,711,411	304,138,000
1995	1,962,235,091	1,286	6,082,710	58,111,838	64,194,548	301,016,000
1996	2,172,009,309	566	14,334,753	55,795,905	70,130,658	308,311,000
1997	2,172,009,309	995	16,961,251	60,944,868	77,906,119	336,742,000
1998	2,282,819,666	934	35,615,808	60,840,534	96,456,342	368,886,000
1999	2,569,117,133	1,232	45,455,893	84,442,562	129,898,455	395,645,000
2000	2,906,464,530	1,312	31,214,390	45,608,507	76,822,897	467,837,000
2001	3,302,350,285	1,400	106,912,266	48,895,813	155,808,079	N/A

Note: Total bank deposits within the City were not available for fiscal year 2001

Source: City of Morgan Hill Building Department
Bank Deposits from Findley Reports

City of Morgan Hill, California

Principal Employers

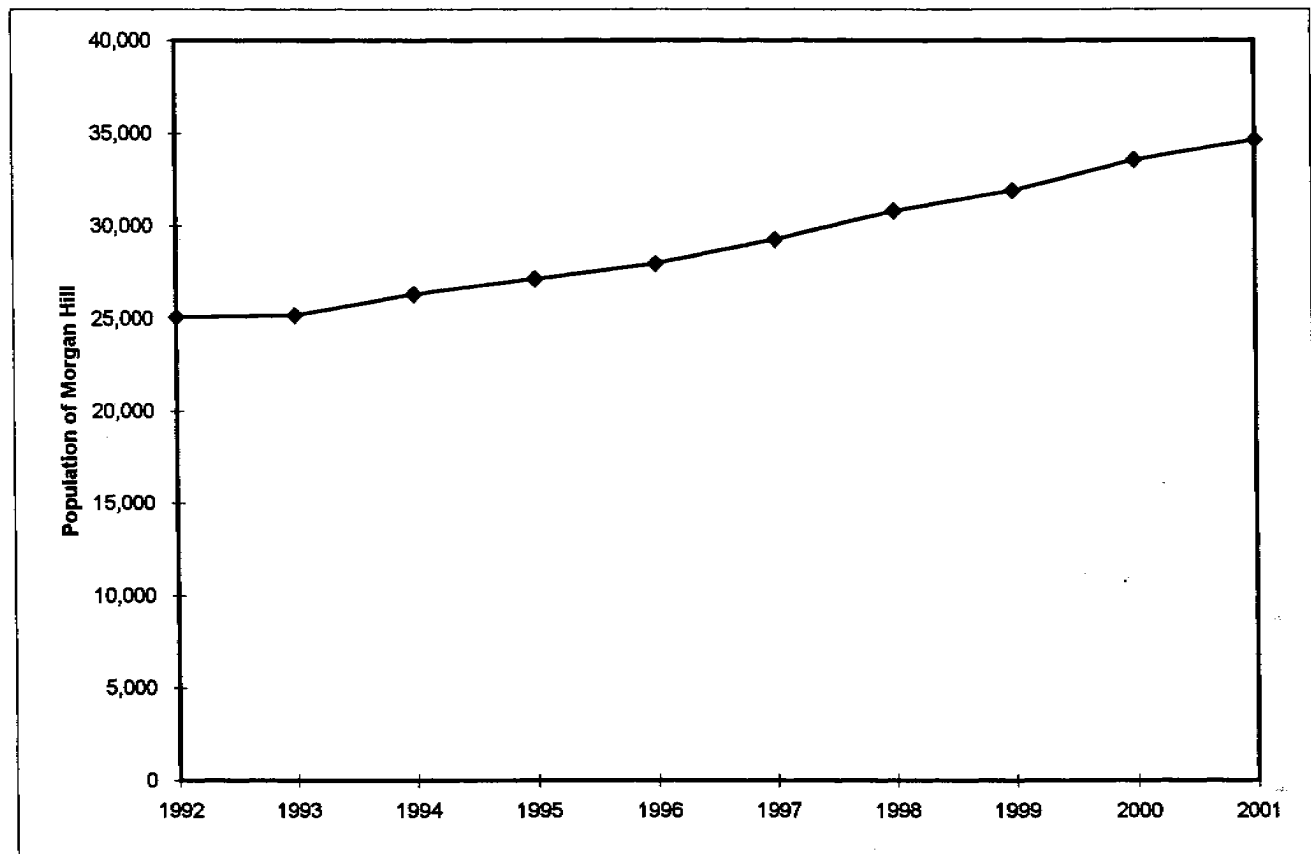


Employer	Number of Employees	Percent of Total
All Others	6,800	64.7%
Anritsu	997	9.5%
Morgan Hill Unified School District	900	8.6%
Abbott Laboratories	502	4.8%
Educational Data Systems	216	2.1%
Fox Racing	209	2.0%
Custom Chrome	202	1.9%
Ericsson	181	1.7%
Safeway	179	1.7%
City of Morgan Hill	163	1.6%
Sakata Seeds	161	1.5%
Total Employees of Principal Employers	10,510	100.0%

Source: City of Morgan Hill Business License Renewal Report

City of Morgan Hill, California

Demographic Statistics - Last Ten Fiscal Years

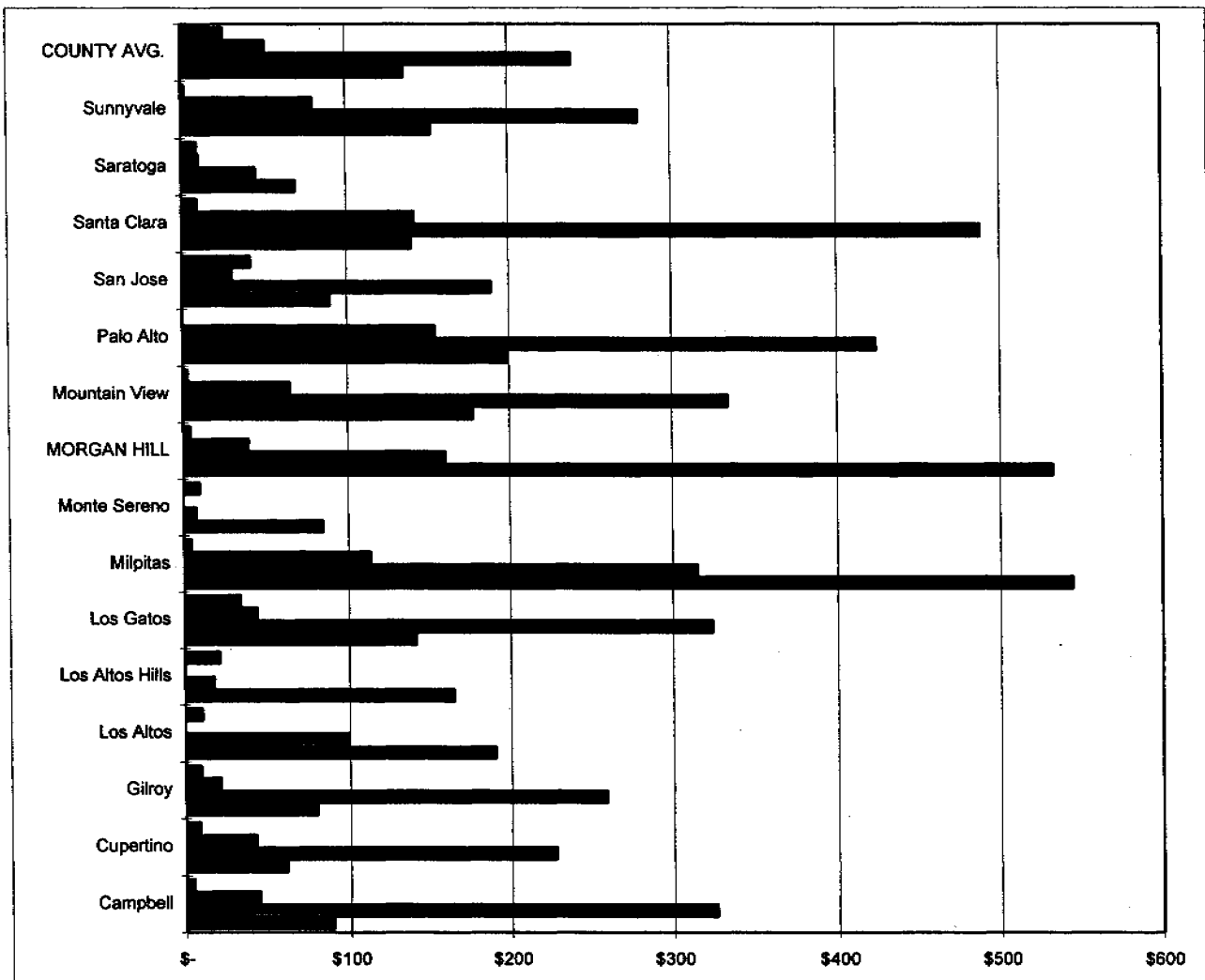


Fiscal Year	City Population	Santa Clara County Population	City Population as % of County's	Growth Rate for Year
1992	25,064	1,526,768	1.6%	1.2%
1993	25,163	1,533,526	1.6%	0.4%
1994	26,285	1,587,768	1.7%	4.5%
1995	27,138	1,606,908	1.7%	3.2%
1996	27,933	1,612,258	1.7%	2.9%
1997	29,246	1,650,000	1.8%	4.7%
1998	30,786	1,653,100	1.9%	5.3%
1999	31,896	1,715,400	1.9%	3.6%
2000	33,550	1,698,800	2.0%	5.2%
2001	34,600	1,723,700	2.0%	3.1%

Source: State of California Department of Finance-Population Research Unit

City of Morgan Hill, California

Property Tax per Capita, Sales Tax per Capita, Transient Occupancy Tax per Capita, and Business License Tax Per Capita - Santa Clara County Cities - 2000-01

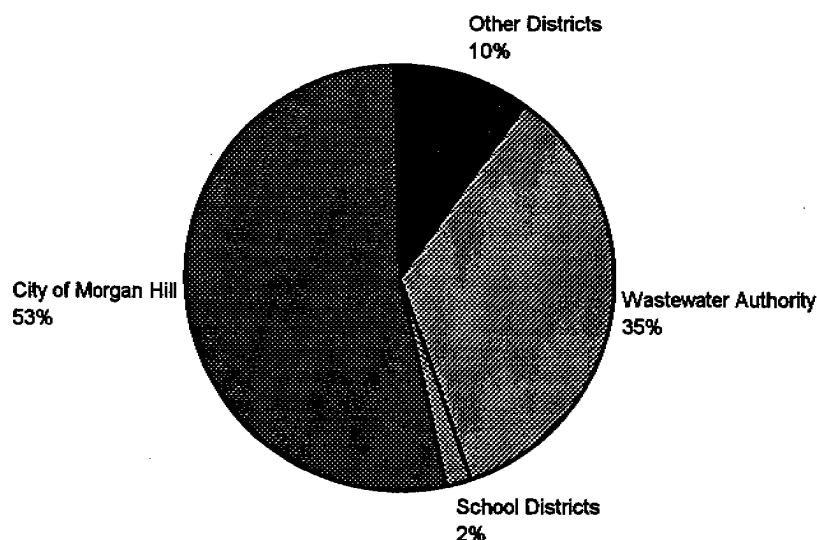


City	Population	Property Tax		Sales Tax		Transient Occupancy		Business License	
		Amount	Per capita	Amount	Per capita	Amount	Per capita	Amount	Per capita
Campbell	38,672	\$ 3,476,874	\$ 90	\$12,610,966	\$ 326	\$1,733,679	\$ 45	\$ 189,903	\$ 5
Cupertino	52,000	3,189,141	61	11,833,583	228	2,221,143	43	458,881	9
Gilroy	43,539	3,492,157	80	11,276,594	259	929,740	21	414,332	10
Los Altos	28,093	5,341,863	190	2,793,456	99	-	-	290,975	10
Los Altos Hills	8,303	1,366,580	165	148,173	18	-	-	176,858	21
Los Gatos	29,100	4,114,196	141	9,429,256	324	1,286,276	44	995,699	34
Milpitas	63,500	34,592,462	545	20,007,979	315	7,218,277	114	288,461	5
Monte Sereno	3,416	288,986	85	25,825	8	-	-	33,533	10
MORGAN HIL	34,600	18,431,805	533	5,532,132	160	1,369,168	40	152,130	4
Mountain View	72,242	12,825,286	178	24,108,168	334	4,688,032	65	221,653	3
Palo Alto	60,835	12,110,000	199	25,786,000	424	9,359,000	154	24,171	0
San Jose	894,943	80,693,570	90	169,216,984	189	27,295,758	30	37,188,511	42
Santa Clara	104,600	14,601,387	140	51,062,375	488	14,821,317	142	983,458	9
Saratoga	29,843	2,065,051	69	1,349,381	45	324,912	11	287,823	10
Sunnyvale	133,983	20,390,623	152	37,620,492	281	10,735,481	80	287,252	2
COUNTY AVG	106,511	\$14,465,332	\$ 136	\$25,520,091	\$ 240	\$5,465,519	\$ 51	\$2,799,576	\$ 26

Source: Cities in Santa Clara County

City of Morgan Hill, California

Schedule of Direct and Overlapping Debt at June 30, 2001

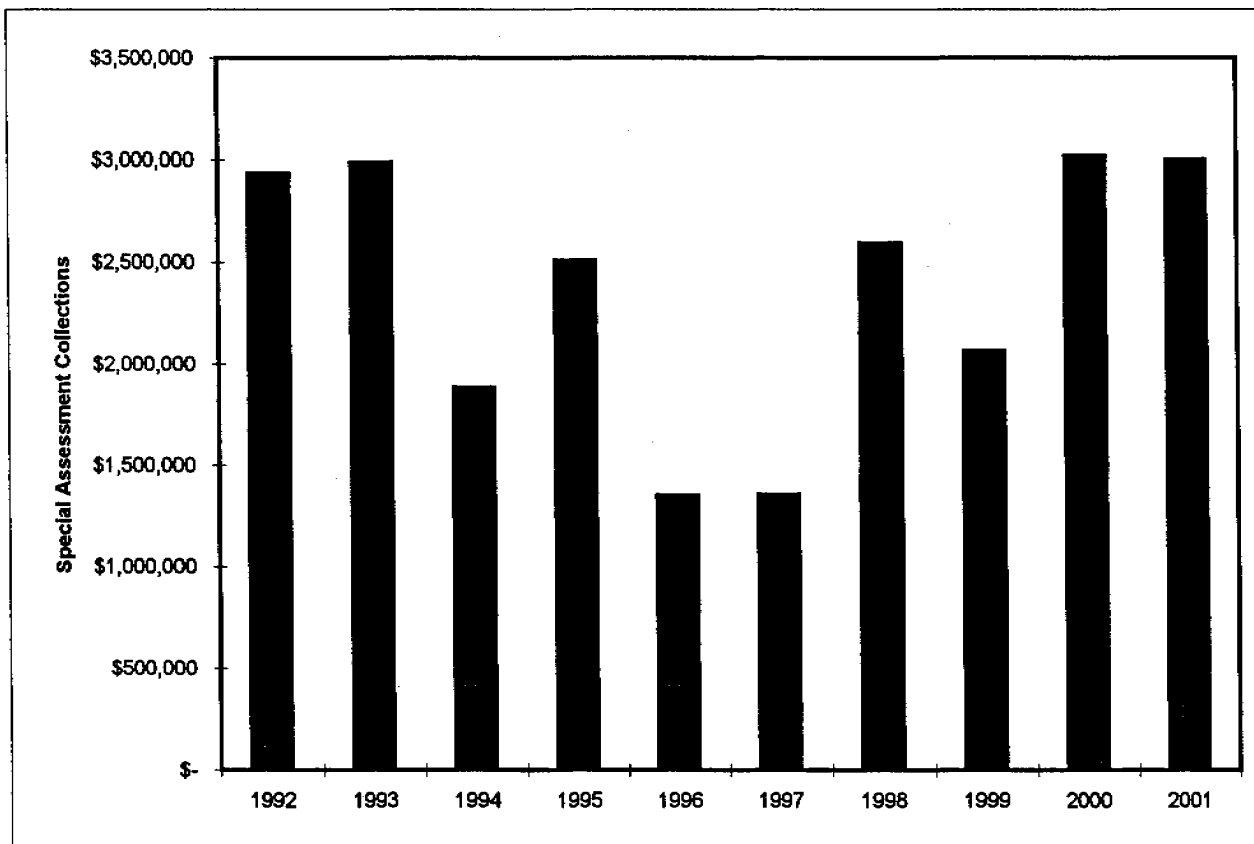


Name of Entity	% Applicable To the City	Debt Applicable To the City
Santa Clara County General Fund Obligations	0.0001%	\$ 5,210,000
Santa Clara County Board of Education Certificates of Participation	0.0001%	\$200,000
Santa Clara Valley Water District Certificates of Participation	0.0001%	1,260,000
Gavilan Joint Community College District Certificates of Participation	0.0010%	120,000
Morgan Hill Unified School Lease Tax Obligations	0.0030%	1,400,000
City of Morgan Hill Certificates of Participation	100.0000%	4,157,108
City of Morgan Hill 1915 Act Bonds	100.0000%	32,310,000
South County Regional Wastewater Authority	100.0000%	23,818,840
Total Gross Direct and Overlapping Debt		\$ 68,475,948
Less: South County Regional Wastewater Authority (100% Self Supporting from Sewer Service and Connection fees)		<u>(23,818,840)</u>
Total Net Direct and Overlapping Debt		<u>\$ 44,657,108</u>
Ratios to Assessed Year Valuation		
Direct Debt issued by the City of Morgan Hill		1.10%
Total Gross Debt		2.07%
Total Net Debt		1.35%

Note: % applicable to the City reflects portion of outstanding debt paid by Morgan Hill property owners.
Source: California Municipal Statistics and City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Special Assessment Billings and Collections - Last Ten Fiscal Years



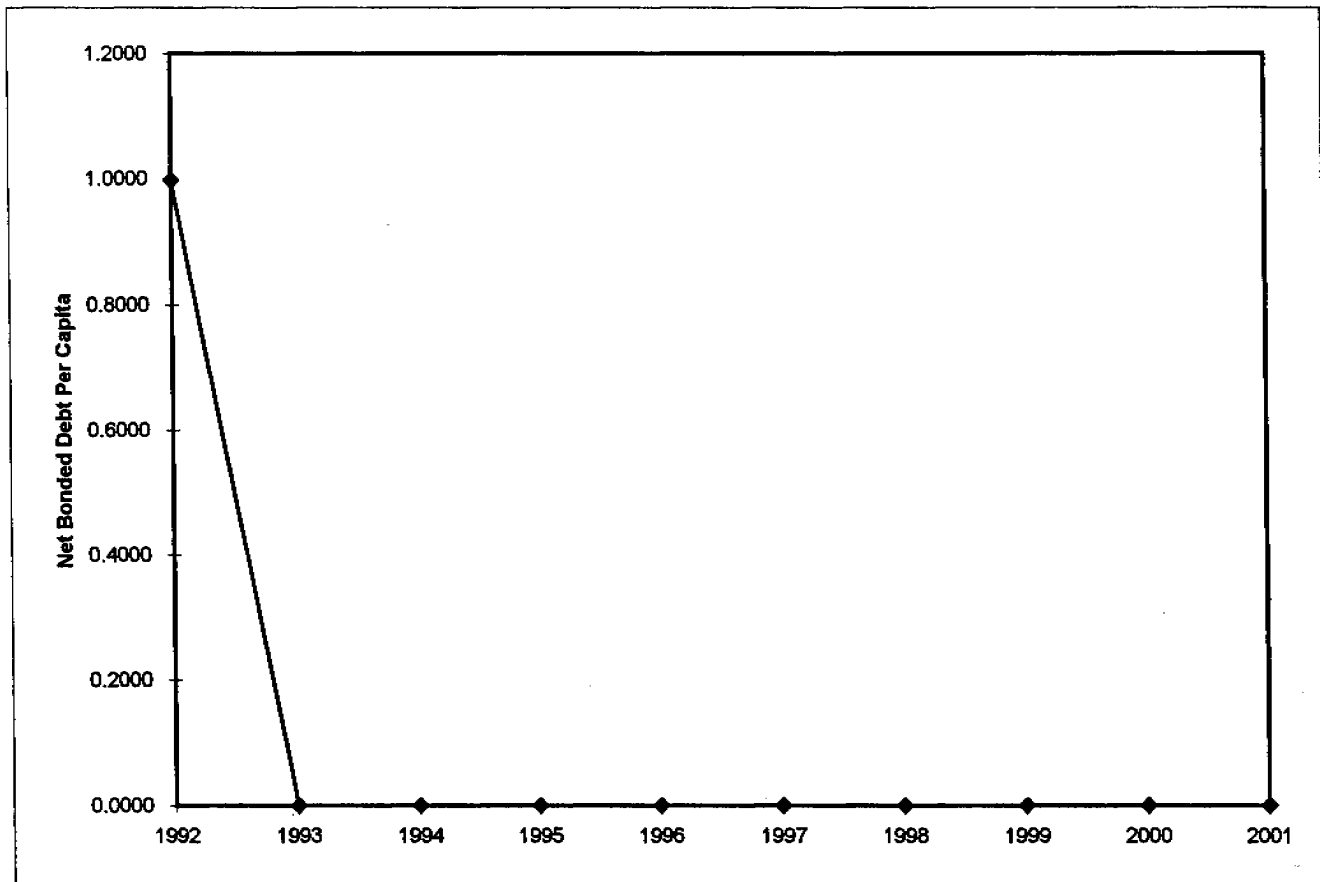
Fiscal Year	Special Assessment	
	Billings	Collections
1992	N/A	\$ 2,934,245
1993	N/A	2,987,726
1994	\$ 2,686,176	1,883,891
1995	2,656,464	2,507,826
1996	1,382,183	1,353,589
1997	1,276,808	1,357,446
1998	2,331,787	2,591,476
1999	2,227,057	2,064,086
2000	2,920,472	3,016,811
2001	2,657,811	3,000,889

Note: Information on Annual Billings was not available prior to the 1993-94 Fiscal Year. Collections include collection of taxes delinquent in prior year.

Sources: City of Morgan Hill Annual Financial Reports
NBS Government Finance Group Special Assessment Annual Reports

City of Morgan Hill, California

Net General Obligation Bonded Debt to Assessed Value/Net General Bonded Debt per Capita

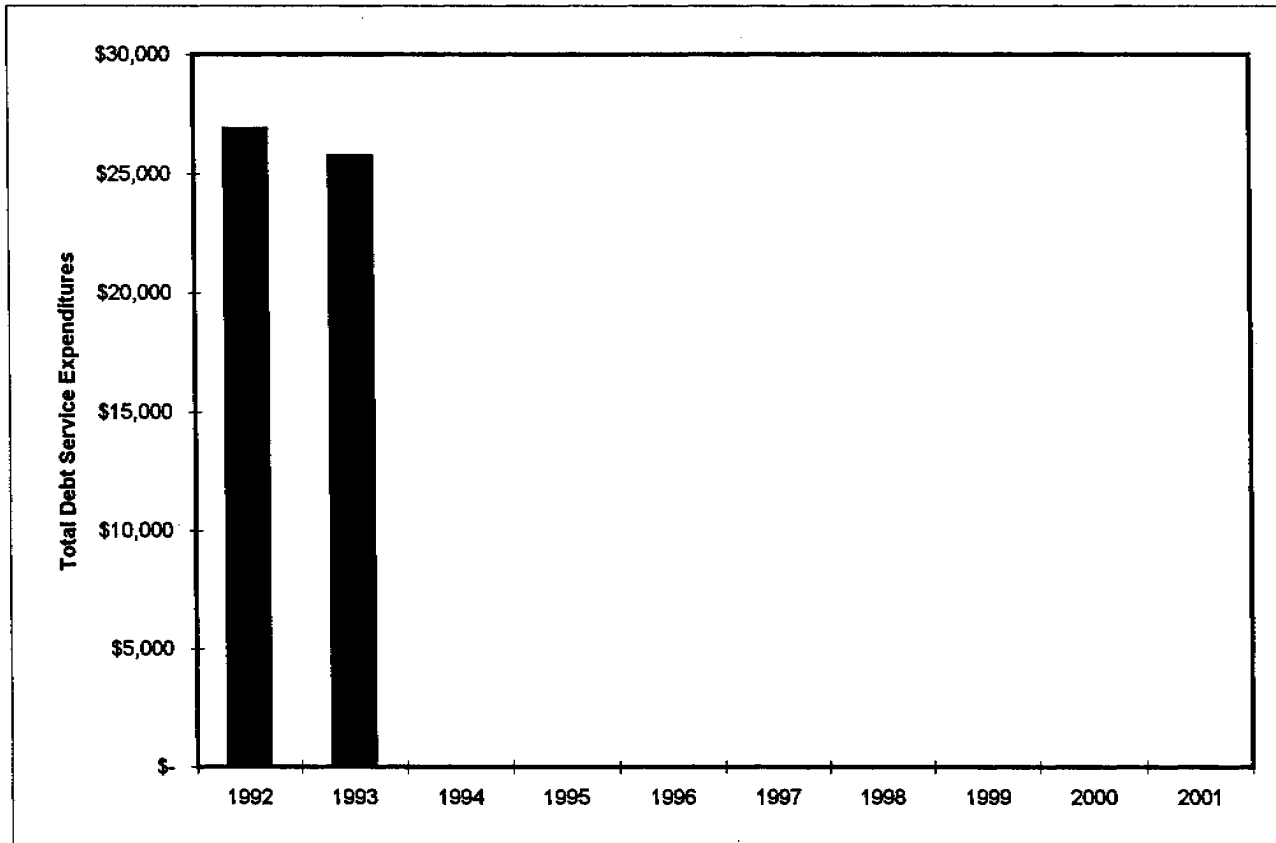


Fiscal Year	Population	Assessed Value	Outstanding Net General Bonded Debt	Net General Bonded Debt Per Capita	Net General Bonded Debt to Assessed Value
1992	25,064	\$1,622,776,092	\$ 25,000	0.9974	0.0015%
1993	25,163	1,704,811,613	0	0.0000	0.0000%
1994	26,285	1,829,197,633	0	0.0000	0.0000%
1995	27,138	1,876,703,618	0	0.0000	0.0000%
1996	27,933	1,962,235,091	0	0.0000	0.0000%
1997	29,246	2,172,009,309	0	0.0000	0.0000%
1998	30,786	2,282,819,666	0	0.0000	0.0000%
1999	31,896	2,569,117,133	0	0.0000	0.0000%
2000	33,550	2,906,464,530	0	0.0000	0.0000%
2001	34,600	3,302,350,285	0	0.0000	0.0000%

Sources: City of Morgan Hill Annual Financial Reports
County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

General Bonded Debt Service Expenditures to Governmental Fund Expenditures

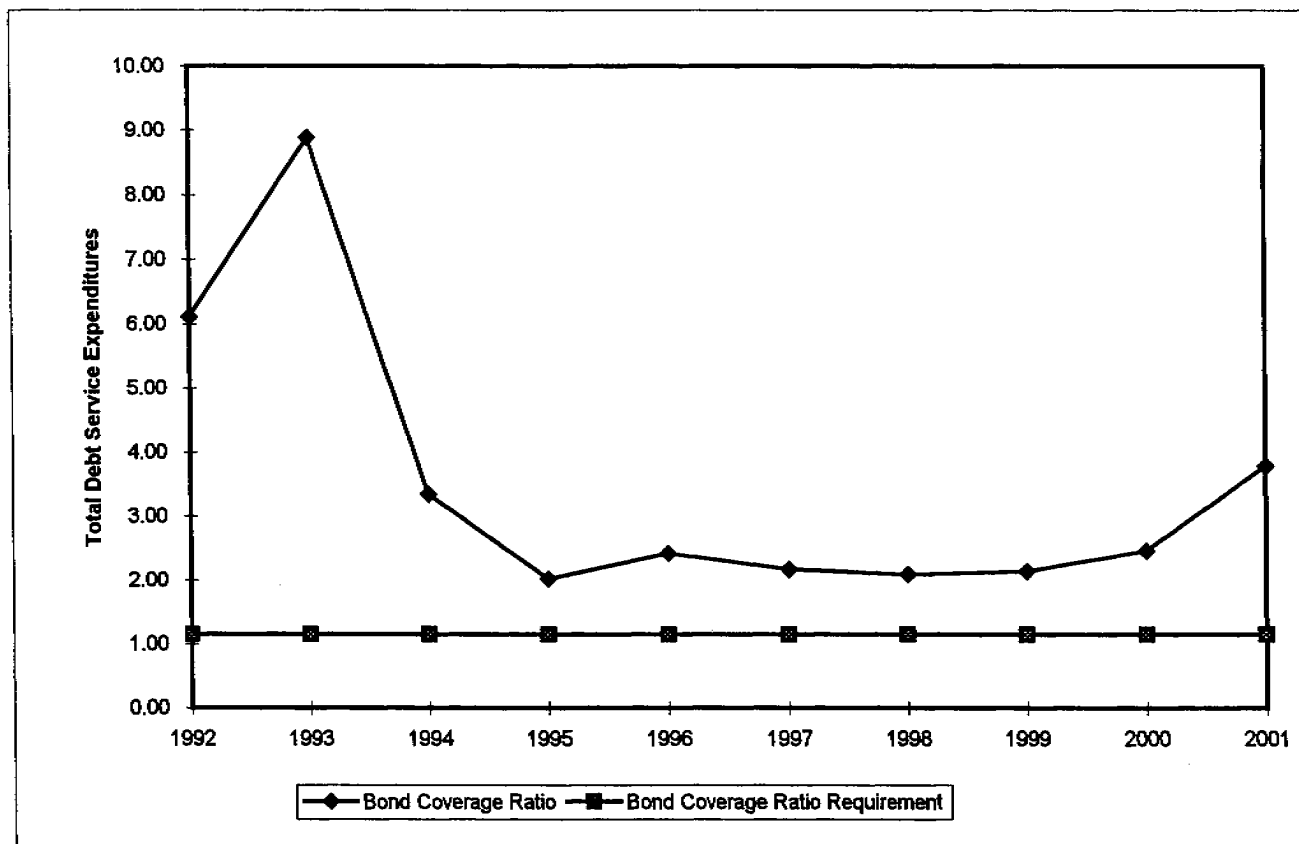


Fiscal Year	Principal	Interest and Fiscal Agent Charges	Total Debt Service	Total Governmental Fund Type Expenditures	Percent of Debt Service to Governmental Fund Expenditures
1992	\$ 25,000	\$ 1,864	\$ 26,864	\$ 23,359,179	0.12%
1993	25,000	729	25,729	27,473,195	0.09%
1994	0	0	0	22,873,533	0.00%
1995	0	0	0	20,313,961	0.00%
1996	0	0	0	21,887,648	0.00%
1997	0	0	0	20,867,358	0.00%
1998	0	0	0	25,294,655	0.00%
1999	0	0	0	26,132,092	0.00%
2000	0	0	0	29,956,545	0.00%
2001	0	0	0	31,766,520	0.00%

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Sewer Revenue Bond Coverage - Last Ten Fiscal Years



Fiscal Year	Gross Revenue	Direct Operating Expense	Net Revenue Available for Debt Service	Debt Service			Bond Coverage Ratio	Bond Coverage Ratio Requirement
				Principal	Interest	Total		
1992	\$ 3,917,848	\$ 1,814,771	\$ 1,975,215	\$ 30,000	\$ 293,521	\$ 323,521	6.11	1.15
1993	4,397,244	1,416,692	2,148,571	30,000	211,839	241,839	8.88	1.15
1994	5,177,905	2,158,088	2,348,088	30,000	671,586	701,586	3.35	1.15
1995	6,676,176	2,337,546	3,188,863	35,000	1,547,408	1,582,408	2.02	1.15
1996	7,364,965	2,916,199	4,448,766	35,000	1,809,981	1,844,981	2.41	1.15
1997	7,588,490	3,034,977	4,553,513	505,000	1,599,054	2,104,054	2.16	1.15
1998	8,087,634	3,644,931	4,442,703	530,000	1,599,943	2,129,943	2.09	1.15
1999	8,107,084	3,500,574	4,606,510	560,000	1,592,583	2,152,583	2.14	1.15
2000	8,700,586	3,479,152	5,221,434	590,000	1,539,546	2,129,546	2.45	1.15
2001	9,596,371	3,309,528	6,286,843	625,000	1,035,311	1,660,311	3.79	1.15

Note: Bond coverage ratio was calculated by dividing Net Revenue Available for Debt Service by Annual Debt Service Payment. Includes 1979 Sewer Revenue Bonds and Sewer Capacity Rights Payable. Includes both Sewer Operating and Sewer Mitigation Enterprise Funds. Direct operating expense is net of depreciation and amortization.

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

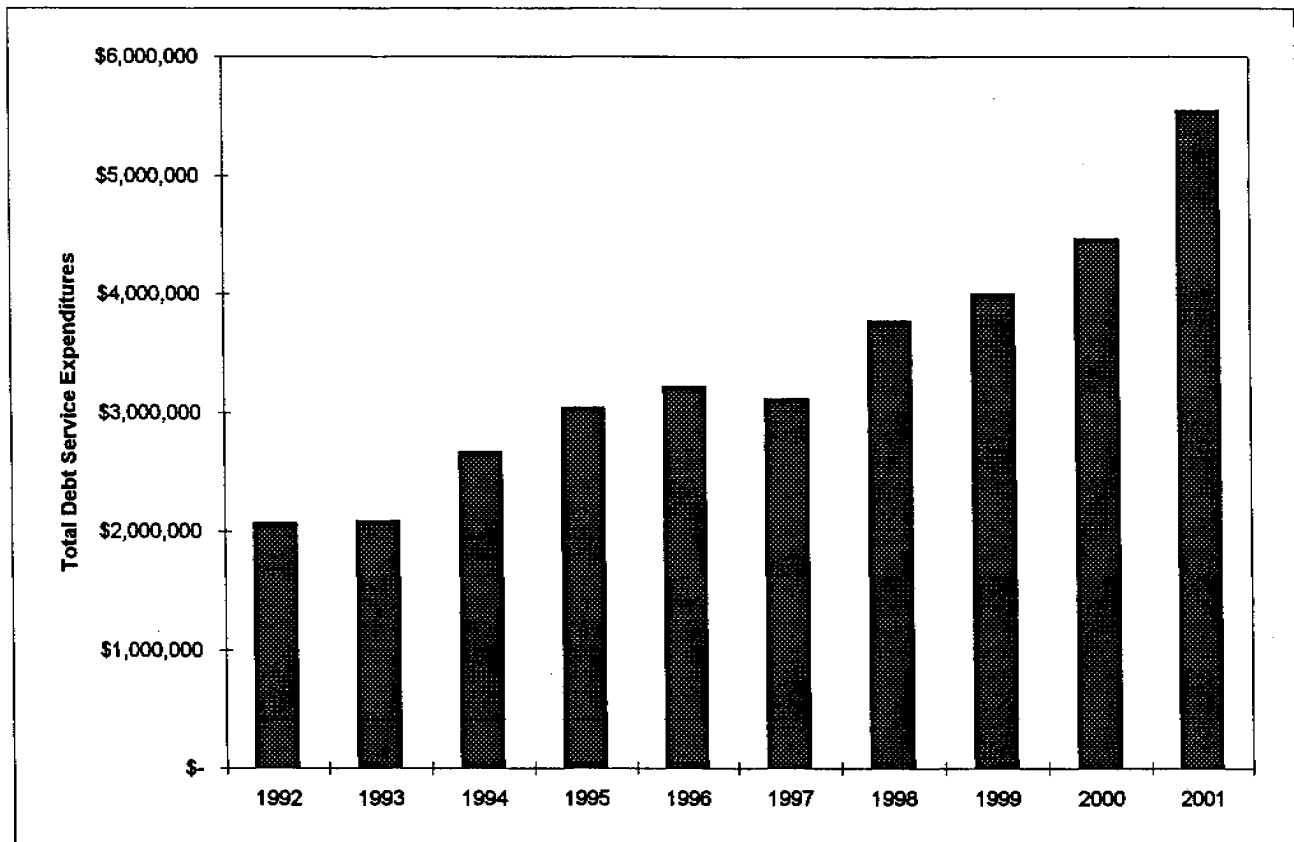
Computation of Legal Debt Margin June 30, 2001

ASSESSED VALUE - SECURED PROPERTY		\$ 3,138,372,709
Debt Limit Percentage		<u>15%</u>
Total Debt Limit		\$ 470,755,906
AMOUNT OF DEBT SUBJECT TO LIMIT:		
Total Bonded Debt	\$ 26,351,698	
Less:		
Special Assessment Bonds	\$ 2,480,000	
Capacity Rights Payable	23,818,840	
Special Revenue Bonds	<u>52,858</u>	
	\$ 26,351,698	
Amount of Debt Subject to Limit		<u>0</u>
LEGAL DEBT MARGIN		<u><u>\$ 470,755,906</u></u>

Source: City of Morgan Hill Finance Department

City of Morgan Hill, California

Sales Taxes - Last Ten Fiscal Years



Fiscal Year	Sales Tax Received by City	% Change
1992	\$ 2,058,940	-3.4%
1993	2,076,076	0.8%
1994	2,652,090	27.7%
1995	3,028,094	14.2%
1996	3,213,586	6.1%
1997	3,104,685	-3.4%
1998	3,762,371	21.2%
1999	3,990,716	6.1%
2000	4,454,774	11.6%
2001	5,532,132	24.2%

Source: City of Morgan Hill Annual Financial Reports

Note: Above does not include public safety sales tax which is reported as funding from other governmental agencies

City of Morgan Hill, California

Miscellaneous Statistics June 30, 2001

General Information

Date of Incorporation	October 1906
Form of Government	Council/Manager
Area	11 square miles
Miles of Streets	104
Number of Street Lights	2,535
Taxable Sales	\$553,213,200
Number of Registered voters	15,659
Median household income for Santa Clara County	\$87,000
Elevation in feet	320
Building Permits Issued during year	1,400

Demographics:

Median Age	34.3
Median Persons per household	3.2
Population (consisting of)	34,600

White	63%
Hispanic	28%
Asian	6%
Black	2%
Other	1%

Fire Protection:

Number of stations	2
Number of engines	3

Police Protection:

Number of stations	1
Number of personnel	49
Number of reserves	6
Number of police cars	25

Municipal Water Services:

Number of Active Accounts	11,028
Average Daily Consumption (gallons)	6,305,043
Miles of Water Mains	125
Pumping Capacity (gallons/day)	12,500,000

Sewer Services

Peak Flow (gallons/day)	5,209,000
Miles of sewer lines	100

Education:

Elementary Schools	8
Junior High and High Schools	3
Total Average Daily Attendance	8,621

Health Facilities:

Dentists and Optometrists	31
Physicians/Surgeons	28
Chiropractors	10
Physical Therapists	2
Medical Clinics	5
Veterinarians	4

Culture and Recreation:

Parks	9
Acres in parks	58
Libraries	1
Theaters	2
Churches	24
Radio Stations	2
Reservoirs	4

Employees:

Administration and Finance	29
Police Officers and Support Staff	49
Community Development	19
Public Works and Engineering	53
Economic Development	7
Police Dispatch Services	6
Total Employees	163

Property Tax Rates and Amount Levied:

Total (1)	1.08%	\$ 35,671,988
City's Portion (2)	6.04%	\$ 2,153,016

Note: (1) Excludes allocations collected by Special Assessment Districts.
(2) Excludes allocations collected by RDA.

Sources: Various School District Attendance and City Records, Morgan Hill Chamber of Commerce Directory